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World News

Gandhi heads for defeat in Tamil Nadu elections

Rajiv Gandhi, Indian Prime Minister, was heading for a humiliating defeat in assembly elections in the southern state of Tamil Nadu, where he had staked his personal prestige by campaigning intensively. Early results showed his Congress Party third in terms of seats in the new assembly. The regionalist Tamil party, the Dravida Munnetra Kazhagam (DMK), seemed likely to win a landslide victory. Page 4

Seoul riot clash

South Korean riot police used tear gas in a clash with 10,000 anti-government and anti-American demonstrators throwing petrol bombs and bottles in a protest called by a day-old alliance of 20 dissident groups. Page 18

1m jobs go in USSR

More than 1.1m people lost their jobs in the state sector of the Soviet economy last year, as Mr Mikhail Gorbachev's efforts to cut the state bureaucracy began to take effect. Page 2

Ambush kills priest

Mozambican National Resistance (MNR) rebels killed a Portuguese priest and five other people in two separate attacks last week. Father Antonio De Rocha died in a rebel ambush in the northern province of Cabo Delgado.

Tension in Kabul

Tension continued to mount in the Afghan capital of Kabul over the weekend as embassies started to close and the resistance guerrillas refused to guarantee even the safety of Red Cross flights carrying medical supplies. Page 4

Herzog for Tokyo

Israel's cabinet, reversing an earlier decision, decided that President Chaim Herzog should attend the funeral next month of Japan's Emperor Hirohito, World War Two ally of Nazi Germany.

Iran drugs move

Iranian security forces have killed six traffickers near the southern city of Kerman and seized hundreds of kilos of opium and heroin in raids marking the start of a crack-down on drugs.

Czech arrests claim

Police detained more than 800 people last week during Czechoslovakia's biggest wave of political protest since the Soviet-led invasion of 1968, according to dissident sources. Page 2; Editorial comment Page 16

Sri Lankan killings

Suspected Marxist rebels killed 13 people including an election candidate and officials and supporters of government and opposition parties in Sri Lanka.

Bhutto to China

Pakistan Prime Minister Benazir Bhutto will visit China next month on her first official foreign trip since taking office in December.

Transplant inquiry

The UK Government said authorities would investigate newspaper reports that poor Turks had been paid £2,000 ($3,500) to donate their kidneys for transplant operations at a private London hospital.

Marcos 'improving'

Deposed Philippine President Ferdinand Marcos was improving after surgery to remove foreign objects, said to be pieces of shrapnel, from his left lung, according to a hospital spokesman in Honolulu.

Homage to Hirohito

Tens of thousands of Japanese flocked to a palace courtyard in front of the late Emperor Hirohito's favourite balcony taking advantage of an unprecedented opportunity to pay their respects.

Bottom line

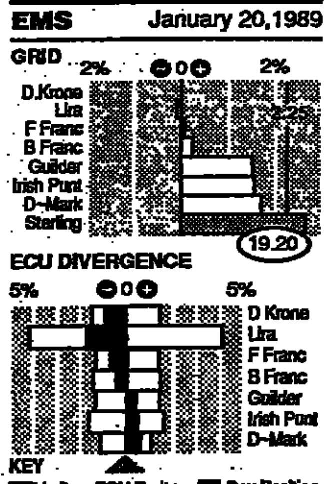
China plans to equip new cars and trucks with special vibrating seats to prevent accidents by massaging drivers' bottoms and reducing stress according to ancient acupuncture principles.

Business Summary

Fraud Office inquiry into purchases of GPG shares

A bundle of documents detailing what appeared to be covert buying of the shares of the UK's Guinness Peat financial services group has been shown by Bank of England officials to the Serious Fraud Office. They prompted an investigation into allegations that the share-buying was by Australian companies linked to Equiticorp International, the New Zealand-based group, which took 61 per cent control of GPG in October 1987 just before the equity market crash. Page 18

EUROPEAN Monetary System: Interest rates were marked up in the EMS last week, prompted by a rise in the West German discount rate. The increase was aimed partly at controlling the strength of the US dollar and the inflationary implications of a weak D-Mark for the West German economy. While the D-Mark remains weak against the dollar, there is little chance of a build up of pressure on the weaker members of the system, and all currencies traded comfortably within their divergence limits.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

PLESSEY, UK electronics group subject to joint GEC-Siemens bid, has decided against swallowing poison pills or arranging cross-shareholdings with friendly companies in its battle to remain independent, said one of the company's executives. Page 18

OCCIDENTAL Petroleum Corp, of the US, has made a major oil find estimated at 600 million barrels that should convert Peru into a net exporter and guarantee supplies for 15 years, according to Alan García, Peruvian President.

EUROPEAN COMMUNITY will decide today to hold its fire, rather than worsen the simmering trade war with the US over hormones in American meat. Page 4

WARTSILA, Finnish metal and engineering group, will not participate in the planned merger of all the country's shipbuilding operations because it regards the state's proposed participation as insufficient. Page 20

RAUL GARDINI'S Ferruzzi-Montedison group has angered some investors on Wall Street by announcing that it is to make a $35 per share tender offer to purchase the outstanding 27.4 per cent of its quoted Ausimont speciality chemicals subsidiary. Page 20

PROTON, Malaysia's national car company, will begin to sell its cars in the UK next month. The company, 70 per cent state-owned, is to ship 1,000 cars to Bristol for distribution by Proton Cars UK. Page 4

FRANCE'S stock market regulatory authority, the Commission des Opérations en Bourse, is expected this week to complete its investigation into the Pechiney insider trading affair, which on Friday led to the resignation of a close adviser of Mr Pierre Bérégovoy, Finance Minister. Page 2

BRAZILIAN Congress has been recalled from summer recess for an emergency sitting to debate President José Sarney's latest anti-inflationary package, knowing that if approval is not granted by February 15 it will fall, threatening a new surge into hyperinflation. Page 3

Sakharov launches big election challenge

By Quentin Peel in Moscow

DR Andrei Sakharov, the Nobel Prize-winner and veteran Soviet human rights campaigner, yesterday threw down the biggest election challenge yet to the Soviet leadership, when he was nominated to stand for the city of Moscow against a top member of the ruling Politburo.

His name was put forward as a candidate to represent the Soviet capital in the newly expanded national Parliament at an emotional meeting attended by almost 1,000 supporters, with some 3,000 more clamouring to get in from outside.

The move means that he will stand against Mr Vitaly Vorotnikov, a senior member of the Politburo, and president of the Russian Federation, in the first contested elections in the Soviet Union for decades.

A third major political figure nominated for the Moscow contest is Mr Boris Yeltsin, former Politburo member and head of the Moscow city Communist Party, who was sacked from those jobs for demanding faster and more radical reforms.

A top election official confirmed that all the nominations were valid, although any of the candidates could still withdraw, and an election commission has to decide whether more than two should run.

Yesterday's extraordinary challenge comes just four days before the end of the nomination process, in which many leading radical reformers have failed to win the support of their Communist Party-dominated organisations.

Dr Sakharov himself was rejected last week as a candidate by the Academy of Sciences, of which he is a member of the presidium, prompting yesterday's emergency meeting, attended by many of the Soviet capital's radical intelligentsia.

Looking frail and tired, the 67-year-old nuclear physicist pledged his determination to contest the seat, covering the entire city of 8m, as one of the representatives of the Russian Federation. "I am moved and excited by the trust you have put in me," he told the crowd. "I will do everything in my power to justify it."

Dr Sakharov spelt out a campaign platform of strong support for perestroika, but with key extra demands. He called for the release of all political prisoners – including the 11 members of the Armenian Karabakh Committee detained since December – and an end to conscription into the Soviet armed forces. He also demanded an end to the internal passport system, controlling the movements of all Soviet citizens.

Outside, where a large crowd of supporters could not fit into the hall of the House of Cinema, fears spread that the meeting might be packed with conservatives to prevent Dr Sakharov's nomination going forward. It took the intervention of a senior policeman to reassure some 3,000 standing in the cold drizzle, that there were "no extremists" causing trouble inside.

One astonished former inmate of a Soviet labour camp told reporters: "This is a fantastic moment. Who could have thought 10 years ago it would ever come to this?"

The enthusiasm was tempered by strong criticism of the election process, however. Angry speakers at the meeting denounced the nominations around the Soviet Union so far, in which middle-of-the-road party workers have often been preferred to radical supporters of Mr Mikhail Gorbachev.

Given the strength of popular support for Dr Sakharov, it seems highly unlikely that his candidacy will be disallowed. On the face of it, however, it would be deeply embarrassing to the Soviet leadership if he or Mr Yeltsin were to defeat Mr Vorotnikov.

On the other hand, the Rus-

Continued on Page 18

Nominated to stand for Moscow: Boris Yeltsin (above) and Andrei Sakharov

Solidarity accepts talks offer on lifting of ban

By Christopher Bobinski in Warsaw

PROSPECTS of a compromise between Poland's ruling Communist Party and the opposition improved yesterday as the leaders of Solidarity accepted an offer of talks with the authorities about the lifting of an eight-year ban on its activity as a free trade union.

If the talks are successful, Solidarity could be guaranteed a quarter of the seats in Poland's Parliament, while in return accepting the Communist party's dominant role and co-operating with a reform programme aimed at tackling the country's economic problems.

The Solidarity leadership, which met behind closed doors in a convent in the port city of Gdansk, the union's birthplace, issued a statement hailing the authorities' offer of talks as "a major step on the road to social dialogue."

It added that: "Now there exists the possibility of negotiation on Solidarity and the country's problems."

The Communists' offer, extended after a stormy central committee meeting in which Gen Wojciech Jaruzelski, the party chief, survived a challenge from hard-liners, provides for the possibility of "trade union pluralism" on condition that Solidarity accepts the constitution – and, by implication, the leading role of the Communist party.

Mr Walesa told an excited crowd in the courtyard of a church in Gdansk that the authorities "had held out their hand" in a conciliatory gesture and that Solidarity was doing likewise. But he cautioned that "anything can happen," evidently keen not to raise excessively high hopes.

Expectations of a compromise between the Communists and Solidarity were dashed last year after "round-table" talks on Poland's future were aborted at the last minute when the authorities made it clear they would not allow the independent union any role on the shop floor.

However, observers said the authorities probably now shared Solidarity's wish for a early meeting, since they want to see a political accord in place, along with assent to Solidarity's legalisation, in time for parliamentary elections,

In these, they are ready to offer Solidarity 25 per cent of the seats in the present 460-member parliament with another 15 per cent going to more or less independent groupings and individuals.

Daimler-Benz to take control of MBB group

By Haig Simonian in Frankfurt

DAIMLER-BENZ, the West German motors conglomerate, has reached agreement to take a DM1.7bn ($925.6m) majority stake in Messerschmitt-Bölkow-Blohm, the West German aerospace and defence group.

The deal ends months of uncertainty and makes Daimler the dominant force in the German aerospace industry.

It will also considerably enhance Daimler's voice in European aerospace affairs and add particular point to the recently publicised desire of British Aerospace, which itself has taken over the Rover motor group, to establish stronger relationships with its West German counterpart.

Mr Edzard Reuter, Daimler's chief executive, confirmed at the weekend that Daimler would take control of MBB in two steps. First, it would participate in a long-expected MBB rights issue, giving it a 30 per cent stake at a cost of "just under DM1bn," he said.

In a second, unexpected move, Daimler would buy a further block of MBB shares from shareholders for about DM700m, leaving it with a "small majority". Mr Reuter would not reveal the size of its eventual stake.

Mr Reuter hoped both steps could be completed this year, or in 1990 at the latest, despite the need for authorisation from the Federal Cartel Office.

MBB would therefore probably become part of Deutsche Aerospace, the aeronautics and defence subsidiary set up by Daimler as part of its reorganisation last year.

The takeover would be financed by a Daimler rights issue, according to Mr Reuter. Although "it would not be hard to imagine" the purchases being funded from liquidity, Daimler had decided to raise capital in view of its growth potential.

Mr Reuter gave no indication of the likely size or timing of the call on shareholders, which has cast a shadow over the group's share price recently.

MBB's civilian aircraft activities, including Airbus production, will be moved to a new Hamburg-based company, capitalised at DM1.6bn, in which MBB and the state-owned Kreditanstalt für Wiederausbau will have 80 per cent and 20 per cent stakes respectively.

Deutsche Airbus, the German part of the European Airbus consortium, in which MBB has a roughly 38 per cent stake, will be dissolved.

MBB is majority-owned by the states of Bavaria, Hamburg and Bremen, which hold about 52 per cent of the shares. A further 20 per cent is owned by Siemens and Aerospatiale through a holding company. After the rights issue, the states' share will fall to about 36 per cent, according to Mr Hanns Arnt Vogels, MBB's chief executive.

US cracks down on market crime

By Lionel Barber in Washington and Deborah Hargreaves in Chicago

THE BUSH Administration is to create new task forces to crack down on crime in the securities and commodity futures markets, Mr Richard Thornburgh, US Attorney General, said yesterday.

Last week, it emerged that the FBI had led a two-year undercover investigation into possible fraud in the Chicago commodities markets after receiving information that investors were being cheated out of tens of millions of dollars.

Some traders have linked the FBI investigation to Archer Daniels Midland, the Illinois grain-processing firm. They believe the giant agricultural conglomerate sparked the widest futures probe ever when it complained more than two years ago of alleged corrupt trading practices at the Chicago Board of Trade (CBOT), the world's largest futures exchange.

As a big grain user, Archer Daniels buys and sells futures contracts on Chicago's exchange to hedge against price fluctuations in the underlying commodities.

Two traders planted by the FBI to trade in the CBOT's grain futures complex in a bid to gather evidence on trading abuses were trained by Archer Daniels, according to other grain traders.

An agent who worked in the exchange's soyabean futures pit is said to have made $100,000 in trading profits during his time on the floor.

The FBI investigation is expected to lead to some influential figures in the US futures industry. The agency has targeted locals – often small-scale traders who trade for their own account – to give evidence against larger market operators in return for a promise of suspended sentences if they are charged with malpractice.

The atmosphere on Chicago's exchange floors will be one of fear and suspicion this week as the city's usually ebullient trading community clams up. As one trading firm executive puts it: "It's hard to find out who your friends and enemies are."

The discovery of widescale abuse in futures trading could sound the death knell for open outcry – the strongly-defended system by which futures contracts are traded. This could turn more interest towards computer trading systems such as Globex, which is under development at the Chicago Mercantile Exchange. Mr Thornburgh said the Chicago case was "far-reaching and significant."

The Attorney General said the new Bush Administration intended to "beef up operations" dealing with fraud and white-collar crime in the securities markets.

Fear stalks the pits, Page 17

Boeing denies further delays in delivery of redesigned 747

By Roderick Oram in New York and Michael Donne in London

BOEING of the US, the world's biggest builder of jet airliners, will start deliveries of the latest version of its 747 Jumbo jet, the Series 400, later this month.

The company denied yesterday stories circulating in both the US and UK that it was further delaying deliveries and even suspending production of the 747-400 because of "unexpected complexities" with design and manufacture of this latest, heavily redesigned version of its 20-year-old jumbo jet.

Boeing warned customers late last year that it would have to delay delivery of the ealiest 747-400s of the production line for a few weeks until early this year – the first time since Boeing rolled out the original 747 in the autumn of 1968 that it had been late with a new airliner model. As a result the company has not delivered any of the 172 aircraft ordered to date.

Boeing officially attributed the delay to a larger than expected number of design changes requested by customers and ordered by the Federal Aviation Administration, plus the need to certificate simultaneously three different makes of engine – General Electric, Pratt & Whitney and Rolls-Royce – for the 747-400.

Boeing executives, however, have said the company is also having difficulty increasing 747 output whilst also designing a new two-crew cockpit with video displays, largely replacing instruments. "The system has given our electrical engineers fits," said a staff member at the 747 assembly plant at Everett near Seattle.

But over the weekend Boeing said that it intended to go ahead with an increase in production of the 747-400 from four to five aircraft a month, indicating it is confident it has overcome problems causing the original delay to deliveries.

In recent weeks, the company has experienced a series of difficulties with its 757 airliners, which, it has been claimed by some, indicates that quality has suffered as the company sharply increased output to fill its backlog of orders for all its aircraft types.

The week-end reports of difficulties with the 747-400, now denied, had also been interpreted as a further blow to the company, following the problems already found in the twin-engined 757 airliner.

Airlines have found seven 757s with crossed wires controlling cargo hold fire extinguishers. Last week Boeing extended its request for checks to 767 airliners which have similar electrical circuits.

In addition, a 15-foot section of aluminium skin ripped off the wing of a 757 taking off from Atlanta last Thursday evening. It returned safely to the airport.

Whether the company's 737 short-haul airliners should join the roster of aircraft suspected of production defects is not yet clear.

UK investigators are trying to determine if the recent crash on the M-1 motorway in the UK Midlands of a new 737-400 that killed 44 people was caused at least in part by incorrectly wired warning systems.

Boeing pointed out over the weekend that there were big design differences between the British jet and an eight-year old 737-200 that lost its right engine as it climbed away from Chicago's O'Hare airport on Friday. The latter aircraft circled and landed safely without a fire or injury to its 32 passengers and crew.

The 737-400 series has different engines and redesigned struts holding them to the wings. But the 737-200 series has problems of its own with design rather than production flaws. Two months ago the Federal Aviation Administration ordered operators to fit all the aircraft with extra engine supports within the next 4,000 landings.

That directive stemmed from a December, 1987, incident when an engine ripped away from a USAir 737-200 taking off from Philadelphia. It landed safely.

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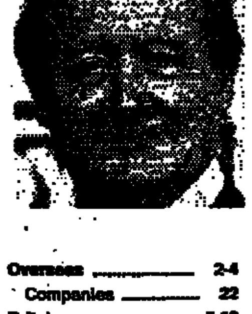
THE MONDAY INTERVIEW



Sir Francis Tombs, arguably the best engineer in British business, has helped change the widely-held image of an engineer as someone in overalls.
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Arrests of Czech protesters continue

POLICE detained more than 800 people last week during the biggest wave of political protest in Czechoslovakia since the Soviet-led invasion of 1968, local dissident sources said yesterday, Reuter reports from Prague.

At least 400 people were said to have been taken into custody and interrogated on Saturday after being removed from trains in the village of Vsetaty, 30 km north of Prague, when they tried to make a pilgrimage to the grave of student activist Jan Palach.

Six successive days of demonstrations last week in Wenceslas Square, in central Prague, began after police had set upon thousands of demonstrators who gathered on January 15 to mark the 20th anniversary of Palach's suicide.

He set fire to himself to protest against the Soviet-led invasion of Czechoslovakia. Vsetaty is his home village.

At least 20 leading dissidents have been detained in police operations since last Monday, including playwright Vaclav Havel, who helped found the Charter 77 human rights movement.

The total number of detentions exceeds 800, but the sources said the figure could be inflated by numbers arrested, freed and then re-arrested. The vast majority is now believed to have been released.

Police also turned back motorists, cyclists and pedestrians on roads leading into Vsetaty, if they did not live there. The cemetery where Palach is buried was closed.

A heavy police presence deterred demonstrators from returning to Wenceslas Square on Saturday and workers were seen removing metal barriers from the area yesterday.

French Bourse likely to urge insider trading charges

By George Graham in Paris

FRANCE'S stock market regulatory authority, the Commission des Opérations en Bourse, is expected this week to complete its investigation into the Pechiney insider trading affair, which on Friday led to the resignation of a close adviser of Mr Pierre Bérégovoy, the Finance Minister.

The investigation conducted by Mr Jean-Pierre Michau, head of the Commission's inspection service, is understood to have confirmed suspicions of insider trading in the shares of Triangle Industries, just before its packaging subsidiary American National Can was bought by Pechiney, the French state-owned aluminium group.

The Commission is expected to ask for charges to be filed against some of the purchasers of shares in Triangle, although it is not clear if the source of their information, whether in the French administration or among other parties to the Pechiney acquisition of ANC, has been identified.

The evening newspaper Le Monde claimed on Saturday that a report had been passed to President François Mitterrand on purchases of Triangle shares by Mr Roger-Patrice Pelat, a close friend of the President since the Second World War. Mr Pelat had already been identified as the buyer of 10,000 Triangle shares through a Paris bank, but Le Monde claimed he, or his son, had bought 40,000 more shares through a Swiss bank.

The report has encouraged some of the right-wing opposition to transfer their attacks to Mr Mitterrand, who has hitherto, like Mr Michel Rocard, the Prime Minister, appeared not to suffer any ill political effects from the Pechiney case.

An IFOP opinion poll published yesterday showed that 47 per cent of those questioned were satisfied with Mr Mitterrand, compared with 46 per cent a month earlier. Mr Rocard's score improved to 43 from 37 per cent in December, when public transport strikes damaged his popularity.

Mr Bérégovoy has until now appeared to be the main political victim of the case, although he has received warm support from both the President and Prime Minister. The resignation of Mr Alain Boublil, the director of Mr Bérégovoy's private office, is viewed by political commentators as potentially damaging to the Finance Minister, whatever the validity of the accusations levelled at Mr Boublil.

Mr Herve Hannoun, economic and financial adviser to Mr Mitterrand, was named on Saturday as Mr Boublil's successor. A former finance ministry official and colleague of Mr Boublil's at the Elysée, the 38-year-old Mr Hannoun was counsellor to Mr Pierre Mauroy when the latter was Prime Minister.

Mr Boublil, meanwhile, has quickly taken advantage of his new freedom to speak by replying to attacks on his conduct. In an interview with Figaro newspaper he said he would not allow himself to be turned into a scapegoat. He said that he owned around FFr100,000 (£9,000) of shares in French industrial companies, but no Triangle shares and no shares in privatised companies.

Mitterrand: under attack

Soviet state sector jobs cut by 1m in 1988

By Quentin Peel in Moscow

MORE than 1.1m people lost their jobs in the state sector of the Soviet economy last year, as Mr Mikhail Gorbachev's efforts to cut the state bureaucracy began to take effect.

The figure was published at the weekend in a round-up of statistics for the Soviet economy in 1988, showing what an uphill struggle the Soviet leader's programme of perestroika, or restructuring, is facing.

In particular, the statistics underline the continuing disastrous state of Soviet agriculture, and a growing inflationary threat from rapid wage rises outstripping productivity.

The figure for the drop in state employment amounts to only 1 per cent of the 117.5m people working in public enterprises and as civil servants, but it represents a sharp acceleration in the number voluntarily or involuntarily leaving such secure employment.

In contrast, just 2m are now working in new co-operatives, or are self-employed, of whom two-thirds are said originally to have worked in the state sector.

Another clear indication of the upheaval in Soviet employment is that 3m workers went to newly-created "job placement centres" looking for new work in the first nine months of 1988 – and only 2m could be found jobs.

What is not clear is whether all the missing 1m found jobs themselves in the fledgling private sector, or whether some remain unemployed.

The statistics were published this weekend by Goskomstat, the Soviet state statistics committee, in a review intended to reveal that the growth rate of the Soviet economy has begun to revive.

Thus the growth of Gross National Product was said last year to have reached 5 per cent, compared with an average growth of 4 per cent from 1981 to 1985 (before Mr Gorbachev became leader).

However the figures, presented in a highly selective way, and often without adequate comparisons or definitions, are more useful for pinpointing the key problem areas in the Soviet economy.

They still do not include any indication of a price index, or inflation level, officially stated to be less than 1 per cent, although calculated by many Soviet economists as between 5 and 8 per cent. If the latter is right, then a growth rate of 5 per cent could be entirely cancelled out by inflation.

Gross agricultural production – singled out by Mr Gorbachev as his top economic priority – grew by only 0.7 per cent in 1988, according to Goskomstat. Without the reasonable performance of the livestock sector – up a modest 3.4 per cent – it would have actually declined.

Not only was the grain harvest down to 195m tonnes, a figure revealed last week, but the potato crop also slumped from an annual average of 75m tonnes to only 62.7m. Vegetable and fruit production was also down.

The crucial problem for Mr Gorbachev is that in those areas where he is succeeding in getting some improvement, increased consumer demand immediately absorbs any increase, and shortages in the shops remain chronic.

Thus production of colour television sets was up 22 per cent, but they are virtually unobtainable, and 62 per cent more video recorders were produced to reach the tiny total production figure of just 72,900 machines for the 280m population.

On the wages front, average monthly income in the state sector shot up by 7 per cent, compared with a plan target of only 1.9 per cent. Labour productivity only increased by 5.1 per cent.

Goskomstat reveals that 3m workers in the Soviet Union still have a monthly wage below roubles 80 a month (£73) compared with an average wage of factory and office workers of roubles 217.

Madrid poised for union concessions

By Peter Bruce in Madrid

THE SPANISH Government seems poised to make significant concessions to the country's two main trade unions in talks tomorrow evening. These represent an effort to head off more damaging political unrest after a successful 24-hour general strike last month.

Both the Government and the two unions that led the December strike, the socialist UGT and the communist CCOO, have warned that, unless agreement on a series of post-strike demands is reached by the end of this month, they would stop talking to each other.

The meeting tomorrow will take place amid constant speculation that, in the absence of a pact, Mr Felipe Gonzalez, the Prime Minister, might be forced to call an early election, even if that meant disrupting Spain's current presidency of the European Community. Supporters of an early poll – who include Mr Gonzalez's deputy, Mr Alfonso Guerra – argue that waiting until after the presidency and after the European Parliament elections in June could leave the Government in a worse position than it has now.

However, some ministers say the Socialist Party cannot be sure of holding its parliamentary majority. The successful congress of the main conservative opposition group, the Popular Alliance, at the weekend will also concentrate the Government's mind. The alliance elected its founder, Mr Manuel Fraga, as party leader after a two-year absence and appears to have found a candidate to challenge Mr Gonzalez in Mr Marcelino Oreja, a former Foreign Minister. The Alliance has changed its name to People's Party (Partido Popular) and is trying to woo Christian Democrats, and a former Prime Minister, Mr Adolfo Suarez, into a centre-right electoral pact.

For all that, a stronger right-wing opposition might make it easier for Mr Gonzalez to settle with the unions on his left.

Mr Carlos Solchaga, Finance Minister, said at the weekend that the Government would make new offers to the unions tomorrow. So far, the Government has responded to union demands – including higher pensions and wider unemployment coverage – with offers worth about Pts 230bn (£1.1bn). The unions have costed their demands at Pts 420bn.

Mr Solchaga even hinted that the Government's 3 per cent inflation target for this year was not inviolable.

Zambia 'to resume ties with IMF'

PRESIDENT Kenneth Kaunda has said that Zambia has accepted an offer by the International Monetary Fund to resume an economic restructuring programme in the country, Reuter reports from Lusaka.

In an interview with US reporters, he said an accord with the IMF followed what he described as the latter's "flexible stance toward needy countries".

Mr Kaunda said the fund would assist with economic reforms adopted by his government since he severed ties with the IMF in May 1987.

"They made soundings that they want to come back and we said: 'Yes, we are ready'," Mr Kaunda added. "This should be on our own terms and they [the fund] should only come here to help us do what we are already doing."

Several senior IMF and World Bank officials, based in the US, visited Zambia in recent months to negotiate resumed assistance and loan facilities.

Last year, the Government cut state subsidies on some essential commodities and removed price controls on certain items to prepare the way for a rapprochement with the fund.

When Zambia cut its ties with the IMF, the Government said the fund's economic adjustment programme was too harsh. It had called for a *big devaluation*.

Four-nation talks on Namibia begin

By Jim Jones in Johannesburg

THE FOUR-nation Joint Monitoring Commission (JMC) overseeing settlements in Angola and Namibia has begun its first round of meetings in New York to discuss the practical implementation of the peace agreements.

In Pretoria, a foreign affairs spokesman said there was no fixed agenda for the New York meeting between representatives of South Africa, Angola, Cuba and the US. But he added that arrangements had to made for the deployment of Untag, the 300-strong international group which is to ensure the fairness of pre-independence elections in Namibia. Arrangements have also to be made to receive Swapo (South West Africa Peoples Organisation) cadres returning to Namibia from Angola.

Untag's financing remains in doubt. Pretoria has declined to contribute saying it is a UN responsibility, and budget considerations may oblige Untag to play a more restricted part in Namibia's independence process than had been envisaged.

South Africa is likely to raise the question of monitoring the 27-month withdrawal of Cuban troops from Angola. Earlier this year, General Ferreira Gomez, the Brazilian head of the international team overseeing Cuba's withdrawal, upset Pretoria by saying verification would be based on trust.

Oil drilling experts fight to avert N Sea blow-out

By Karen Fosell in Oslo

EXPERTS are working to arrest the potential for a blow-out (an oil and gas explosion) in an oil exploration well which was being drilled in the North Sea by Saga Petroleum, Norway's largest independent oil company.

The well is in an area about nine miles from the Albuskjell oil platform, one of seven fields in the Ekofisk oil and gas production area, which accounts for 20 per cent of Norway's total oil production.

The exploration well was being drilled from a semi-submersible mobile drilling unit in the southern part of the Norwegian North Sea when problems were encountered from a high-pressure geological formation.

More than half the crew on the drilling unit had to be evacuated and the rig moved 150 metres from the well.

Experts are considering what precautions to take to stabilise the well so as to prevent oil and gas leaking.

An official of the Norwegian Petroleum Directorate (NPD), Norway's watchdog over oil activities, said that, "technically, the situation is not under full control", and it could "take weeks or months" to rein it in.

A worst-case scenario could force production from part of Ekofisk to be shut down during oil spill cleansing.

An executive with Phillips Petroleum, operator of Ekofisk, said: "If a risk is posed to lives on Ekofisk, we would not hesitate to shut down".

Officials would not be drawn on qualifying the potential for a blow-out, but said that, over time, pressure in the well, now closed, could rise or die.

Staff at SFT, Norway's pollution watchdog, have used an oil spill model which showed that pollution could spread to Denmark, where other oil and gas installations are located.

This double act could become very big

THERE IS on world tour a new kind of show whose earning potential has been spotted by some sharp corporations and which may become very big.

The two performers need to be clever, venerable and rich in wit: one must be a Soviet and the other an American – though in time the principle could be extended.

The path-breakers for this new form of entertainment are two economists of huge distinction.

Professor John Kenneth Galbraith has *done* his stuis – and academe – some service. Prof Stanislav Menchikov is something of a mirror image. A former UN diplomat and present adviser to the Soviet Communist Party's central committee, he is author of an array of economic works.

The show, largely promoted by Saatchi and Saatchi with MSL International, the Hay Group and others, is called Capitalism, Communism and Coexistence, and is a riot.

John Lloyd visits an East-West chat show, live on stage in Manchester

Its British debut was put on by the Manchester Business School at the Royal Northern College of Music next door, compered by Brian Redhead and introduced by Peter Ustinov.

There was no question that this was star time: Ustinov set the tone, when he gave as a major reason for thinking that Mr Mikhail Gorbachev was genuine, the fact that the Soviet leader had given Ustinov and other megastars a three-hour interview instead of the scheduled *one*.

You have to reflect that this proves only that Mr Gorbachev is a bad timekeeper.

The double-act is an academic discourse spiced with comfortably blunted, well-rehearsed barbs. An example:

Galbraith: "I am balanced equally by two Russians (Ustinov and Menchikov)."

Menchikov: "Well, you know, we always have twice as many missiles as you."

Menchikov: "I have a tape recorder in my pocket – it seems to be acting up."

Galbraith: "This is a pre-glasnost situation – he has to take a machine to record his own remarks."

"These are not hilarious in cold print, but had the audience in stitches: it was the *ambiance*, the *sight* of an American and a Soviet sitting down to tease each other about their systems.

Not, actually, that the teasing was too sharp. Both implicitly agreed to work within a framework of equivalence: crudely put, we both have problems. As Menchikov said: "This talk is about capitalism and communism. The basic idea is that both systems are in process of reassessment."

But this is not so: the communist system has proclaimed itself in a crisis while the capitalist system proclaims itself in the best of health.

Menchikov was the more interesting for that reason. He volunteered that Soviet defence spending was something like double that of the US – that is about 14 per cent of GNP – and said it would have to be halved.

He said that would be done within four years. He admitted the capitalist world was ahead not just in the provision of material goods but in democracy as well.

But he was never challenged. When he said, as an aside, that Stalin could have been more "democratic", neither Galbraith nor anyone else asked – could he? Could he hold power, as leader of a tiny, unpopular sect and *still* be democratic?

So pervasive was the bonhomie that it was Galbraith who emerged as the further left of the two – chided by Menchikov, only partly in jest, for being nasty to Ronald Reagan.

Galbraith remains, at 80, (Menchikov is a young 65) formidably witty, a little vain, and still vastly alive – characteristics which meet their equal in his Soviet doppelganger. But the evening neither asked nor answered any hard questions. That's show business.

FINANCIAL TIMES

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OVERSEAS NEWS

Rapid growth leaves Boeing flying into turbulent weather

Roderick Oram visits the aircraft-maker's assembly plant at Everett, Washington

ONE glance at the overflowing parking lots tells you things are hopping at Boeing's Everett assembly plant. With the company rapidly hiring staff to satisfy bulging airliner order books, cars are squeezed in everywhere.

"Oh man, its awful!" said one employee, talking about the traffic jams he would face when shifts changed on a recent afternoon.

Clogged roads look to be the only flaw in this picture-postcard setting, about 30 miles north of Seattle. Even the sprawling main assembly building, nearly half a mile wide and a third deep, seems a comprehensible size when seen against distant snow-capped peaks, front and back.

Do deeper problems lurk at Boeing plants? Regulatory officials and airline passengers are beginning to wonder. A growing list of disquieting incidents with its aircraft might indicate quality has suffered from its quick build-up in production.

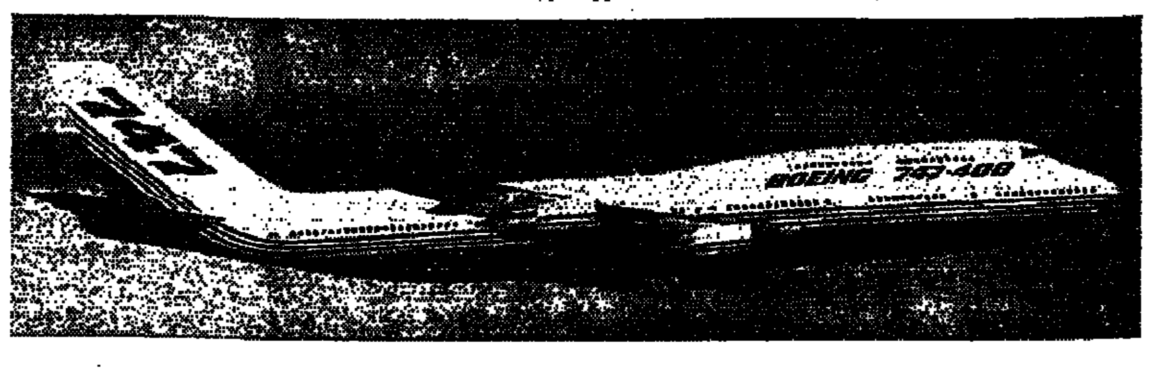
So far, only 737 and 757 types of airliners from Boeing's other assembly plant at Renton, south of Seattle, have suffered – crossed wires, peeling skins and an engine that tore away on take-off.

The Everett plant, though, was thrust into the limelight at the weekend when Boeing announced it was suspending its first deliveries of the 747-400, the latest variant of the jumbo jet, because of "unexpected complexities" in making the heavily redesigned aircraft.

The news confirmed the feeling in the Seattle area that Boeing's biggest production headaches are at Everett, where it also makes the 767 type. It is trying to double the plant's annual output to 120 aircraft by next year.

Expanding production has been full of challenges for Boeing. For instance, it has had to move its 747 assembly line to make room for the 400 model. The aircraft's redesign added upturned winglets that increased its wingspan to 211 feet. This was only an extra 16 feet but enough to make the old line too cramped. Boeing will have to add a second line to meet its goal of raising output of 747s from five a month to seven by next year.

Last year, Boeing transfered 300 senior production engineers to Everett from Renton, and still no one has a moment to spare. When the aerospace section of the American Institute of Industrial Engineers asked to tour Everett next month, when they would be in Seattle for its annual meeting, Boeing said the section would have to see another plant because engineers were too busy to show visitors around.



To step up output is like the massed start of a marathon: one trip can bring score of runners to the ground, Mr Phil Condit, executive vice-president in charge of production, said last November when announcing new schedules. "If one guy doesn't make it, you've got a problem." Everett has 16,200 employees and hiring continues apace, according to local union and civic leaders.

"If everything were working just right we could produce a lot more airplanes with the same number of people," a senior Boeing strategist said last month. But it is not. So, to meet its production goals, Boeing Commercial Airplanes, the company's airliner subsidiary, increased its staff by 28 per cent to 56,600 in the past two years.

"There's been an awful lot of skill dilution in the rapid build-up of the payroll," the strategist added.

Boeing much prefers to hire skilled aerospace workers but, with the local supply dwindling, it has turned increasingly to other fields. Thanks to higher pay, it draws electricians and sheet-metal workers, for example, from Seattle building sites and shipyards, and gives them five weeks of training for aircraft building.

"It used to be that Bob was hired and trained by Sam, and then Bob trained Bill... and 13 generations later the piece of work didn't quite end up how it started," an Everett employee said.

To tackle that problem, Boeing set up a Skills Process Centre at the Everett plant, where new workers practise on a stripped-down front section of an old 727 airliner. "It's a very successful programme. It has cut very dramatically the time it takes to get someone onto the shop floor," the employee added.

Even with thousands of new employees, Boeing is still demanding gruelling overtime from its staff. Since its unions complained about excessive hours last summer, Boeing is sticking to its labour contracts. Even so, an assembly line worker is allowed to put in 200 hours of overtime a quarter, or work up to seven successive weeks without a day off.

In another move to alleviate pressure, Boeing is phasing out refurbishment work. A pair of All-Nippon Airways 747s may be the last aircraft to come back to Everett until the boom has faded.

"I've seen these quality and overtime symptoms before," said a University of Washington professor of engineering with close ties to Boeing. "They've pulled it off in previous booms but it remains to be seen whether they're stretched too thin this time."

Besides the strain of overtime, several hundred employees at Boeing's Auburn parts plant, south of Seattle, suffered health problems last year, prompting a Senate investigation.

The workers reported memory loss, irritability, blood in their urine and other symptoms. The cause was traced to fumes from phenolic materials used to make plastic parts for airliner interiors. Boeing improved the plant's ventilation system and cut use of the suspect ingredients.

Once visitors have picked their way through Everett's crowded car parks, one of the first things they see outside the main assembly building is a fatigue test stand where airframes are subjected to stress until they break. Boeing has drawn a heavy nylon curtain around the stand to protect passers-by from flying rivets.

If pressure on its resources continues to rise, Boeing might have to consider protective wrapping for its plants at Everett, Renton, Auburn and other places before they burst at the seams.

Brazilian Congress recalled for debate on inflation package

By Ivo Dawnay in Rio de Janeiro

THE BRAZILIAN Congress has been recalled from its summer recess for an emergency sitting, starting today, to debate President José Sarney's latest anti-inflationary package. If Congress does not approve it by February 15, the measures will lapse, threatening a new surge of hyper-inflation.

Senior congressional leaders look certain to refuse to discuss the hottest political potato among the measures – the dismissal of up to 90,000 civil servants.

The price freeze, the end to inflation-indexing of the economy, and new federal spending restraints, are almost certainly more important in the president's Summer Plan, the sackings have become a test of the Government's commitment to cut deeply into its bureaucracy.

Analysts in Brazil and abroad were critical of Mr Sarney last week when he unexpectedly shifted responsibility for the controversial decision from his own office at the Planalto Palace to a congressional vote.

Justifying the change, Mr Saulo Ramos, the president's legal adviser, said the country's new constitution demanded Congressional approval of the move. Others argue, however, that the Government is simply passing the buck; knowing that Deputies and Senators will shy away from dismissing officials unprotected by job security laws, as many are their own political appointees.

The row has stirred up a heated legal debate, with lawyers for the civil servants under threat arguing that "no just cause" for their removal has yet been established. Those arguing for a radical reduction in the size of the government machine counter that many more public functionaries must be given their notice if the country is to take seriously the administration's promise to reduce its budget deficit to zero in the current year.

Most analysts believe Congress will approve the main package of measures, while insisting that responsibility for the success of the plan lies firmly with the president's office.

Mr Ulysses Guimarães, chairman of the House of Representatives, has ruled that the measures can only be approved or rejected. If they are thrown out, most economists believe a new, potentially disastrous, inflationary surge would be inevitable.

Inflation in January is believed to have exceeded 40 per cent so far, according to unofficial estimates.

● Mr Orlando Galvão, a 48-year-old economist, has been appointed the new president of Petrobrás, Brazil's state-owned oil company. He succeeds Mr Armando Guedes, who resigned in December after a row over bribery allegations against executives in the company's distribution subsidiary.

Managua offers US olive branch

By Tim Coone in Managua

NICARAGUA has accepted the appointment of nine new US embassy staff in Managua, in a diplomatic gesture on Friday.

The move is seen as a clear signal to Washington that Managua wishes to achieve a better relationship with the incoming Bush administration, so as to attain a political accommodation between the two governments.

President Ronald Reagan, who left office on Friday, had said he intended to have the Sandinistas out of power before he went.

Making the announcement, Mr Miguel d'Escoto, Nicaraguan Foreign Minister, said: "I hope this will be the beginning of a normalisation of relations."

He said Nicaragua had also dropped the stipulation that all visiting US government officials request visas 15 days in advance. They will now be granted immediately.

Diplomatic relations between Washington and Managua reached their lowest ebb last July, following Nicaragua's expulsion of Mr Richard Melton, US ambassador, with seven other US diplomats, for alleged interference in Nicaraguan political affairs.

The expulsions followed a violent confrontation between police and demonstrators in the small town of Nandaime. The Nicaraguan Government claimed the incident had been instigated by the US embassy. Washington responded by expelling Mr Carlos Tunnermann, Nicaraguan ambassador to the US, and seven other Nicaraguan embassy staff.

Since the expulsions, both governments have been carrying out tit-for-tat denials or delays in authorising visas to visiting government officials. This has proved particularly cumbersome for Nicaragua.

Newfoundland PM quits

By Robert Gibbens in Montreal

MR BRIAN PECKFORD, 46, the fiery Canadian crusader who led the provincial Tories through three successful elections, is resigning as premier of Newfoundland and heading for the private sector.

His decision ends several months of speculation about his taking a senior position in industry. Though he reached agreement with the federal government for development of the C$5bn (£2.4bn) Hibernia offshore oilfield, he has run into severe criticism for ploughing C$16m of taxpayers' funds into a disastrous commercial greenhouse project.

Mr Peckford, a former school teacher, became premier in 1979. He promised "a revolution between the ears" to make Newfoundland an equal partner in the confederation, based on the province's offshore oil resources.

Several Tory provincial MPs have ambitions to follow Mr Peckford in office, though a movement is under way to persuade Mr John Crosbie, the federal Trade Minister, to take over.

Bush prepares for early tests

By Lionel Barber in Washington

PRESIDENT George Bush yesterday ended five frenetic days of inaugural festivities and said he was ready to get down to serious work.

Mr Bush will begin with a Cabinet meeting today, and tomorrow the new president has invited congressional leaders to the White House to discuss the budget and foreign policy.

The meeting will provide an early test for Mr Bush, who has called repeatedly for "bipartisanship" with the Democratic-controlled Congress. The Democratic leadership has responded favourably, if a little warily, because of the expected clash over the budget.

The first few days in office are not expected to produce new initiatives, though several reviews are under way, including studies of defence budget priorities and of US-Soviet relations.

Mr John Sununu, White House chief of staff, yesterday reaffirmed the administration's opposition to new taxes as a means of cutting the federal deficit, and predicted that the budget talks would be "spirited and lively".

But he said the problem of the $155bn deficit was "not arithmetic but politics", adding that Congress would be able to share the credit for dealing with it.

Mr Sununu said Mr Bush would demonstrate that "a conservative president can be compassionate".

This theme was picked up in several newspaper editorials yesterday, which praised Mr Bush for his conciliatory inaugural address and for his pledge to help the less fortunate.

Mr Bush, who attended final parties over the weekend including one held by a Texas society, the Black Tie and Boots, said: "I can't wait to get to work. I mean serious work."

Yesterday, in the final act of the five-day celebrations, Mr Bush attended an ecumenical church service, where he received blessings from Catholic, Protestant, Jewish and Greek Orthodox clergy.

OVERSEAS NEWS

Gandhi close to Tamil poll defeat

By David Housego in New Delhi

MR RAJIV Gandhi, Indian Prime Minister, was heading for a humiliating defeat last night in assembly elections in the southern state of Tamil Nadu, where he had staked his personal prestige by campaigning intensively.

Early results showed his Congress Party third in terms of seats in the new assembly. The regionalist Tamil party, the Dravida Munnetra Kazhagam (DMK), seemed likely to win a landslide victory with an absolute majority of seats.

The second largest number of seats was going to a faction of a rival regional party, the All-India Anna DMK, under the Tamil film actress Jayalalitha.

The potential scale of the defeat – with Congress ahead in only 28 constituencies, against 148 for the DMK – rules out the possibility of Mr Gandhi calling an early general election.

It also provides a psychological fillip for the opposition parties which have formed a National Front coalition, of which Mr M Karunanidhi, the DMK leader and a former Chief Minister of Tamil Nadu, was a founder.

The setback for Mr Gandhi follows another reverse over the weekend with a corruption scandal that could force the resignation of Mr Arjun Singh, Chief Minister of Madhya Pradesh, who used to be one of his closest associates.

Mr Arjun Singh was told last night by Congress Party leaders to step down.

The state high court used unusually strong terms in calling on the chief minister to explain how he had acquired the funds to build a large mansion near the state capital, Bhopal. The high court said Mr Arjun Singh "has to clear the cloud, in the public interest, in order to cleanse the atmosphere, which is vitiated and polluted."

The court also called for an inquiry into the financial affairs of the Children's Welfare Society, run by Mr Singh's son, which had raised many millions of rupees through public lotteries. Of 12 held, the first prizes remained undistributed in 10. The scandal is damaging to Mr Gandhi and the Congress Party because the opposition has made corruption central in its attacks on the administration.

Mr Arjun Singh was a close adviser of Mr Gandhi over the Punjab before becoming governor of the Punjab and then a central government minister.

Part of the evidence against him in the lottery case has come from another senior Congress member, Mr Motilal Vora, the Health Minister. This reflects the divisions in the party.

In the Tamil Nadu election, Mr Gandhi campaigned intensively in the hope of building up Congress strength in the south and winning enough seats to give the party a chance of participating in a coalition state government. The party's performance puts both objectives out of reach.

Mr Gandhi visited the state nine times during the campaign, touring all the constituencies and making more than 300 speeches.

The defeat is bound to call into question his judgment in not seeking an alliance with one of the Tamil parties.

Of the 234 seats in the state assembly, the DMK was last night ahead in 140, Jayalalitha's wing of the AIADMK in 32 and Congress in 28.

Foreigners begin withdrawal from Kabul

By Robin Pauley, Asia Editor

TENSION continued to mount in the frozen and hungry Afghan capital of capital of Kabul over the weekend as embassies started to close and the resistance guerrillas refused to guarantee even the safety of Red Cross flights trying to take in medical supplies.

West Germany ordered all its nationals out and will leave its embassy with a skeleton staff of locals. International aid organisations also started ordering foreign staff to leave Afghanistan in the wake of a British warning to people to get out while flights were still available.

The British Embassy sent final warnings to more than 60 Britons and other Westerners for whom it has consular responsibility, and called British journalists in to advise them personally to leave because of worsening conditions.

The United Nations was reported to be leaving just one foreign representative in Kabul for each of its agencies. The International Red Cross asked the seven-party Mujahideen alliance based in the Pakistan border town of Peshawar to guarantee the security of a flight it is planning for tomorrow to deliver urgently-needed medical and surgical supplies for Kabul and the eastern city of Herat. The alliance refused.

The search among Afghan groups for agreement on the political future of the country received a further setback yesterday when four leaders based in Iran rejected a plan by the seven Pakistan-based groups to set up a *shura* (assembly or council) to consider an interim government for Afghanistan.

The Pakistan groups were locked in meetings all weekend trying to work out the composition of a future government.

A senior Soviet commander acknowledged yesterday that Moscow was ending its nine-year war, intended to bolster Afghanistan's Marxist Government, with a sense of failure.

"We have not succeeded in everything we planned to do here," said Major General Lev Serebrov, political officer at the Soviet military high command in Kabul.

He also said the final phase of the Soviet withdrawal, due to be completed by February 15, had not yet begun.

SHIPPING REPORT

Gulf VLCC rates soften

By Kevin Brown, Transport Correspondent

DEMAND remained steady in the tanker markets last week, but Very Large Crude Carrier (VLCC) rates softened in the Gulf because of a build-up of available tonnage.

Brokers said one charterer seeking cover for a 260,000-ton stem from the Gulf to the West received 10 offers before fixing at New Worldscale 46 – down from about Worldscale 59 for a similar trip a week earlier.

For the shorter haul from the Gulf to Japan, a Japanese charterer fixed a cargo of 240,000 tons at Worldscale 49.5, and Tokyo Tankers fixed a cargo of 250,000 tons at Worldscale 42.5. VLCC rates in the previous week were around Worldscale 59-62.

There was a shortage of smaller cargoes, leading to favourable rates for charterers. Texaco concluded 80,000 tons from the Gulf to the East at Worldscale 110.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Nov '88	Oct '88	Sept '88	Nov '87
US	17,997	19,603	18,015	14,391
UK	41,063	39,332	38,698	34,194
W Germany	56,313	54,540	52,705	70,421
Japan	89,964	85,502	84,446	72,336
Belgium	8,369	7,962	7,564	8,080
Netherlands	15,225	14,345	13,126	13,871
Italy	31,903	29,818	26,893	26,156
	Oct '88	Sept '88	Aug '88	Oct '87
France	23,194	25,335	26,320	27,685

Source: IMF

Hong Kong Basic Law inquiry welcomed

By John Elliott in Hong Kong

LEADING politicians in Hong Kong hope a proposed inquiry into the UK's handling of the return of the colony to Chinese sovereignty in 1997 will encourage Peking to agree to increased democracy and help to arouse local interest in the issues involved.

The announcement last Friday of a British House of Commons Foreign Affairs Committee inquiry, which will take place in the next few months, coincides with growing concern in Hong Kong that the second draft of the post-1997 Basic Law will not contain enough provisions for the development of democracy.

There has been local criticism of the UK's allegedly lethargic stand.

"I am disappointed in a lot of what is in the draft and it is politically important at this time for the UK to be seen to be taking an interest," said Mr Allen Lee, the senior member of the colony's Legislative Council.

The draft was settled at a meeting in the south Chinese city of Canton a week ago and is to be approved by a standing committee of Peking's National People's Congress in a few weeks before being published for a further period of consultation.

Conservative representatives of Hong Kong's business establishment initiated amendments in Canton which could slow the introduction of democratic elections for the new legislature and for the chief executive who will replace the present governor.

This has been condemned by a wide cross-section of Hong Kong's public opinion in the past week.

Malaysia sells cars

Malaysia's national car company, Proton, will begin to sell its cars in the UK next month, the company said, Reuter reports from Kuala Lumpur.

The company (70 per cent state-owned) is to ship 1,000 cars to Bristol for distribution by Proton Cars UK.

EC likely to hold fire in hormone trade war

By Tim Dickson in Brussels

THE European Community will decide today to hold its fire, rather than exacerbate the simmering trade war with the US over hormones in American meat.

In a gesture designed to cool transatlantic tempers, while demonstrating the continuing strength of the EC's resolve, foreign ministers of the 12 are expected to confirm details of new trade sanctions against Washington but to refrain for the moment from implementing them.

So the meeting today in Brussels should mark the start of a badly needed breathing space in the dispute, which flared on January 1 when Washington responded to the EC's ban on almost $100m (£55.5m) a year of its hormone-treated meat sales to the Community by slapping 100 per cent duties on an equivalent amount of food imports from the EC.

The crisis quickly threatened to get out of hand when EC ambassadors approved the European Commission's proposal to hit back by targeting $96m of US walnuts and dried fruit.

The Foreign Affairs Council in Brussels today will formally endorse the selection of these items, but will delay at least until the middle of next month any decision on putting such counter-retaliation measures into effect.

The current battle has its roots in the EC's decision to prohibit the use, from the beginning of 1988, of all so-called hormone implants in Community meat production, and to apply the law to US beef imports from January 1 this year. Brussels cites consumer pressure as the main reason for the move.

Washington has consistently opposed the ban, claiming it is without scientific foundation and constitutes an unfair barrier to trade.

Despite high principles held and bitter rhetoric unleashed, politicians on both sides of the Atlantic have been alarmed by the prospect of worsening of a dispute which concerns a mere drop in the $150bn ocean of two-way transatlantic trade.

There is a feeling that the wide media attention to the matter near the turn of the year, when there was little other economic news, might have helped create a dangerous confrontational mood.

The view has gained ground in Brussels over the past few days that EC interests will be best served by waiting for the next Council of the General Agreement on Tariffs and Trade (Gatt) on October 3, when the EC's legal challenge to Washington's retaliation of January 1 will be considered.

Britain, the Netherlands and Denmark have argued persuasively in recent meetings for this approach. Others, notably Italy, continue to make more bellicose noises.

Despite the likely lull in hostilities, there are no signs at this stage of a lasting solution to the dispute, nor of a new willingness to negotiate.

Mr Frans Andriessen, EC External Relations Commissioner, raised speculation at the European Parliament in Strasbourg last week when, answering questions, he told MEPs: "In this case one does not need to exclude a scientific judgment in the total framework of the problem".

His spokesman, however, quickly denied that this should be seen as a concession, and pointed out that the Commission held its original view that any Gatt panel could only examine the scientific issues in the wider context of the legal and commercial considerations.

The European Parliament is seen by many on the US side as a crucial influence if the EC is to modify the ban. A highly emotional parliamentary debate against hormones paved the way for the decision by the Council of Ministers in late 1985, so any softening of the parliament's position would be significant.

There was little sign of this in the amendment motion passed by MEPs after the debate last week, but some observers are clinging to the hope that the European parliament's current inquiry on hormones could lead to some new conclusions on the subject, and that a change of heart could follow the elections to the assembly in June.

On the European side, some see a solution in the offers from the American states of Texas, Kansas, Wyoming and Montana to meet the EC requirement for beef produced without artificial hormones.

US Government officials have attempted to play down these reports but the European Commission appears to be taking them seriously.

Hopes rise on farm reforms

By Tim Dixon in Brussels

HOPES WERE rising in Brussels at the weekend that a wide-ranging package of farm policy reforms – including changes to the European Community's beef regime and a radical new scheme for direct income payments to poorer producers – will be agreed at the meeting this week of agriculture ministers.

A deal on the package of six related issues, which have dominated EC farm councils over the last six months, would clear the way for the first negotiations on farm price proposals for this year, announced by the European Commission last week.

The main reservations (as the meeting last month) are still held by France over details of the direct income aid plan, and by Britain and Ireland over different aspects of the proposed reform of the EC's system of beef support.

It is understood, however, that Mr Ray MacSharry of Ireland, the new Farm Commissioner, has gone some way to meeting his country's concern that the planned price support mechanisms do not provide an adequate safety net for producers, while technical changes were being considered to try to satisfy the French.

Measuring up to high standards

Andrew Fisher on the EC fight for common technical requirements

THE setting of common technical requirements for industrial goods sounds a deceptively mundane note in the grand vision of Europe's single market.

Yet progress on the matter is a central part of attaining that dream. An important key to its success or failure lies in the hands of the influential West German standards authorities, which are preparing the ground for their next battle for influence in European standardisation.

Common EC standards should save manufacturers the huge costs of adjusting product designs to the rules of 12 different national standards bodies, identified by the European Commission as one of the biggest hindrances to cross-border trade.

No member state knows that better than West Germany, often accused by its EC partners of using its high technical standards to erect non-tariff barriers against cheaper and lower-quality foreign goods, and of trying too hard to impose its own norms on the rest of the Community.

The body at the heart of the standards debate between West Germany and the rest of the Community is the private-sector Deutsche Institut für Normung (DIN), which has written *about 20,000 different* standards, more than for any other country in the EC. These are respected across the world, often conferring an automatic quality advantage in export markets on the West German goods which bear them.

Mr Helmut Reihlen, director of the Berlin-based DIN, makes no secret of the fact that standards can be just as much instruments of industrial policy as guardians of health and safety. "They are a competitive tool," he says. But they continue to be a serious challenge, as well as an opportunity, to importers.

West Germany's experience shows why the EC's campaign for common technical requirements is unlikely to meet its goal of creating mutually acceptable national standards across Europe by 1992. DIN plays a dominant role in this work, as head of 40 per cent of the EC committees for setting technical standards – the same as the French and British combined.

West Germany provided the European Commission's inspiration for the current approach to EC standardisation, as a defendant in the European Court of Justice in Luxembourg in 1978.

A West German drinks importer had contested the fact that national authorities prevented it from importing French Cassis de Dijon – blackcurrant liqueur – on the pretext that this contained insufficient alcohol by national standards.

The court's ruling that this discriminated illegally against foreign goods had very wide implications. It confirmed for the first time that under EC law, member states had to accept each others' standards so long as health and safety were not threatened.

That gave Brussels the legal backing to abandon the old and ineffective policy of attempting to harmonise industrial standards around a detailed EC norm. It was hopelessly complex and slow.

Instead, the so-called new approach stipulates that goods must be allowed free access so long as they conform with *basic safety and performance requirements*, to be expressed as standards by national and European authorities.

The challenge, as West German experience shows, is getting that seemingly elegant idea to work in practice. It is one thing to enter the West German market under Euro-rules, but quite another to satisfy the stringent requirements of retailers and distributors, which unlike public authorities are free under EC trade law to demand from suppliers any standards they like.

Several UK companies doing business in West Germany said they had no trouble adapting to DIN standards, especially since those set by the British Standards Institute were at least as tough. But they still had to observe extra, purely national standards, at the insistence of retailers and distributors.

Mr Paddy Hopkirk, former rally driver and joint owner of Mill Automotive Group, agreed that the West German seal of technical approval was a vital selling-point. "You're dead over there without it," he said. Thus, Mill ensures its exports are passed by the Technische Überwachungs-Verein, even when it is not legally obliged to do so on safety grounds.

Another example is Unipart, the UK motor parts supplier, which said its products meet and mostly exceed standards demanded by any country's car-makers. Yet the trend towards mutual recognition in the EC is something that

Reihlen: competitive quality

groups such as Unipart welcome.

All this only adds to other states' suspicions that West Germany's influence in European standard-setting bodies is too rigorous and too strong, especially in Cen and Cenelec, the organisations responsible for turning EC technical *requirements into specific* Euro-standards.

Mr Reihlen is sensitive to these charges. "In Germany, I always plead for people not to be so arrogant and not always to assume that our ideas are the best. After all, people in Britain, Portugal and other countries live all right, so what they do can't be so wrong. But it may be that things are not always so systematically organised elsewhere."

Even so, he adds that DIN standards being so highly regarded is a compliment. UK and EC standards officials respond that West Germany does not automatically get the power to have its own way because it heads so many European standards committees.

Germany had, for instance, to drop its insistence on tougher standards than the rest wanted in a recent discussion in Brussels on the chemical content of paint in toys. "This is the first time I can remember that we couldn't prevail on something affecting safety," said Mr Reihlen.

The safety threat is small, but spurred on by the German authorities, DIN will try again for a stiffer EC standard in a few years' time.

Political wrangling apart, Mr Reihlen appears committed to European standardisation as an important way of improving industrial efficiency and quality across the Community.

"If you have one standard for a number of countries, this helps the process of rationalisation," he says. He points to the interest shown by less technically advanced countries such as Spain in using European standards to improve their own export competitiveness. "They know they have no chances in other markets if they are below the high standards accepted elsewhere," he said.

For West German companies, the main benefit of EC standardisation is the economies of scale the process encourages, rather than the improved market access their Spanish counterparts are looking for.

Take Flohr-Otis, the Berlin-based lift producer. "The advantage for bigger companies of uniform regulations in Europe is that we can produce more efficiently and on a larger scale," says Mr Siegfried Gelsdorf of its product management division.

He welcomes the *ending of* the widely differing standards that existed between European states – and fortunately *for* West German producers, the European rules turned out to be similar to their own existing rules. "We haven't had to give up too much," said Mr Gelsdorf.

West Germany is trying equally hard to influence common EC requirements for construction products, adopted by member states last month and now awaiting transformation into technical standards at Cen.

Thereafter, building products would either have to conform with Cen *standards or* prove that they conform with other standards that fit the EC requirements. About 100 differing rules for cement alone now exist across Europe. These should be cut to about 20, say DIN officials.

Meanwhile, as in all directives on standardisation that stem from the new approach, member states are obliged to accept each others' regulations so long as they conform with the basic EC requirements.

It is no surprise that West Germany will be pushing again for its standards to be adopted as the EC norm in this process. It all goes to show that national interests still play a big part – and no doubt always will – in European standardisation.

UK NEWS

Labour may look to credit controls for spending curb

By Philip Stephens, Political Editor

The Labour Party's shadow cabinet is to consider making the reintroduction of direct credit controls a key plank of an economic strategy to re-balance economic growth towards investment and away from consumption.

A confidential paper submitted to the Labour leadership by Mr Bryan Gould, the party's trade and industry spokesman, argues that both the political and practical objections to credit controls are readily answerable.

It adds that by making the case for targeted restraint of key sources of credit – particularly mortgage lending – Labour can claim convincingly that the high interest rates imposed by Mr Nigel Lawson, the Chancellor, are unnecessary.

Unrest in the Conservative Party about the damage high interest rates have inflicted on industry and the trade balance would also allow Labour to deflect the government attacks which would follow a decision to advocate credit controls.

The paper says that to be politically acceptable future credit controls would have to avoid the resentment generated by hire-purchase controls in the past, particularly among low-income groups.

"This means credit controls which will not make hire purchase more expensive or take away people's credit cards, but which rather concentrate on the financial institutions whose lending has fuelled the borrowing binge," Mr Gould says.

Such constraints could involve a combination of balance sheet controls, similar to those operated under the "corset" in the 1970s, and tax penalties on financial institutions to restrict excessive lending.

In particular, the measures would aim to limit mortgage lending strictly to genuine house purchases to avoid the massive leakage of such funds into general consumer spending.

The paper says that unfettered mortgage lending works against first-time buyers, because the subsequent rises in house prices pushes homes out of their reach. One option would therefore be to restrict borrowing by existing owners to a lower multiple of earnings. That would reduce the incentive for equity withdrawal from the housing market.

A smaller reform, which could be introduced with "political and practical advantage", would be to impose limits on the cheap housing finance enjoyed by employees of City institutions.

Mr Gould acknowledges that the transformation and internationalisation of financial markets during the 1980s would result inevitably in some leakage from such controls, as lending moved offshore. The paper insists, however, that carefully-drawn constraints would be "substantially effective."

Interest rate cut 'unlikely'

By Terry Byland

THE VIEW of many analysts in the City of London that British interest rates are unlikely to be cut before Budget week is reinforced in the latest edition of the UK Financial Bulletin, published today by NatWest Capital Markets.

Mr Stephen Hannah, chief economist for NatWest Group Treasury and Capital Markets, is bullish on domestic interest rates. But he believes that "Mr Lawson cannot afford to take inflationary risks."

Underpinning the bulletin's view on interest rates is its prediction of a sharp slowdown in domestic demand during 1989, with growth down from 7½ per cent to 2¾ per cent. However, the inflationary risk will mean a tight Budget in March, with tax cuts of no more than £1bn, Mr Hannah argues.

Crane maker squeezed out of tourist city

Stothert & Pitt's closure highlights the dilemmas facing heavy industry in the south

STOTHERT & PITT, one of the West Country's oldest companies and a world famous name in crane manufacturing, is to be broken up and sold to release its 15-acre site in Bath for redevelopment.

Hollis Industries, the parent company, says that the sale is the only way it can realise sufficient capital to maintain the repayment schedule on a £60m bank loan. The loan was negotiated to allow its £105.95m management buy-out of the engineering interests of Mr Robert Maxwell's Hollis Group in July last year.

The company says the site value has effectively priced Stothert & Pitt out of the market for anyone interested in taking it as a going concern in Bath.

The decision raises a question about the future of heavy industry in a local economy dominated by the service sector and tourism. The issues facing Bath are typical of those elsewhere in the south where heavy industry occupies prime development land. Stothert & Pitt is one more example of the fading blue-collar south of the divide. RICHARD DONKIN reports.

AN advertisement for the crane manufacturer Stothert & Pitt declares "proud of our past, positive of our future," in the Bath Chamber of Commerce desk diary for 1989.

The only positive thing about Stothert's future is that the company is to be broken up and sold. It is a sad day for the city's largest private employer.

The company evolved from the ironmongery business of George Stothert who, as early as 1785, was selling castings from the Coalbrookdale Ironworks in Shropshire.

The company, one of Bath's few examples of heavy industry, once employed 2,000 people; it has declined to a workforce of 580, and most of those people are expected to be made redundant.

Mrs Eileen Walkington, secretary of Bath Chamber of Commerce, described Stothert & Pitt as "like the Bank of England to the people of Bath. They thought it would always be there."

The company is known worldwide for the excellence of its engineering products. Its revolving DD2 dockside crane achieved international renown. Its vibrating roller was an important innovation in contractor's plant, another part of the business which has five separate sections. .

The decision to sell Stothert has confused members of the workforce who thought that the company had overcome its financial difficulties when it was bought by the Hollis group of Mr Robert Maxwell 2¼ years ago.

It has also confused Bath City Council, which believed that Hollis was committed to developing the industrial base of Stothert & Pitt in Bath.

Just after the takeover in 1986 Stothert & Pitt reported pre-tax losses of £6.3m. In 1987 the company had losses of about £3m.

"We thought we had survived the bad period," said Mr Bryan Lewis, a 54-year-old fitter who started work for the company 29 years ago.

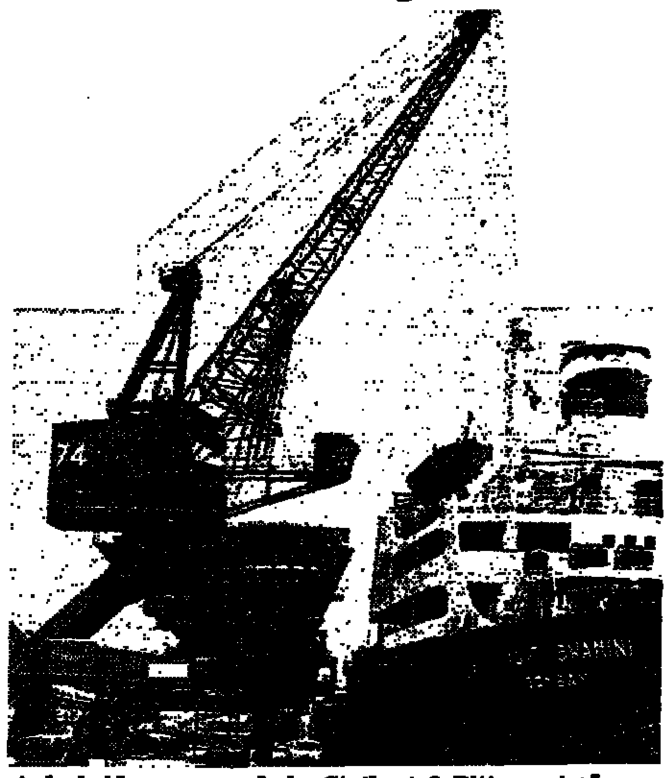
"At my age I do not expect to be one of those who keeps their job – if any of us do," he said. "I expect I'll find a job, but I doubt if it will be in my particular skill. I'm not going to leave Bath now."

Stothert is a going concern with a reasonably healthy order book, according to management. But its parent, Hollis Industries, says it needs the money it can get from selling the individual Stothert businesses and the land occupied by its Victoria works to repay a £60m loan from a banking syndicate led by Bankers Trust.

The Victoria works, which Hollis Industries is committed to close in June, occupies 15 acres of prime development land near Bath city centre. The land could realise between £4.5m and £15m, depending on the development allowed.

The loan, most of which must be paid within 2½ years, allowed management to buy out the engineering interests of Mr Maxwell's Hollis group for £105.95m last July.

The rest of the finance for the deal was provided by the former parent, now known as Pergamon AGB.



A dockside crane made by Stothert & Pitt: most of the company's 580 workers face redundancy.

Mr Maxwell has no voting interest in Hollis Industries but in the event of its flotation or sale, Pergamon AGB does have share conversion options.

Those would give Mr Maxwell's company a minimum of 42 per cent and a maximum of 51 per cent of Hollis, depending on how much Hollis chose to draw on additional finance from Pergamon. Hollis has said it will not draw on finance.

Although the figure of Mr Maxwell remains in the background, Mr Colin Robinson, the 49-year-old Hollis chief executive, is keen to exorcise the Pergamon ghost. "Mr Maxwell was not consulted about our decision to sell Stothert & Pitt. There was no reason to do so," he said.

He said the company had asked to reschedule the debt but the bank had refused. Hollis was not quibbling about the debt, he stressed, nor was it under any pressure from the bank. "We knew what we were taking on and we know what we have to do to meet it," Mr Robinson said.

The move has exposed a conflict about the future use of the land. Bath City Council, supported by Mr Chris Patten, the city's MP, wants the site to be used for industrial development. Heavy industrial sites are extremely rare in Bath.

Developers, on the other hand, would value the site far more if it could be used for shops, offices or houses. Hollis sees no reason why a mixed industrial and commercial development could not be allowed.

Bath City Council is in a difficult position over its planning policy, which has a presumption against out-of-town retail developments. The policy leaves it open to accusations that it is protecting its own extensive property interests in the city centre, where it is the largest landlord. The policy clearly affects the price Hollis can obtain for the land.

In some ways Stothert can be seen as a victim of southern affluence. The land would be less of a factor if the company were based in the north-east.

In addition the company has been unable to attract the skilled workers it needs to develop its operations. House prices in Bath are very high.

It is unclear how much Hollis under its new management was committed to a future for Stothert in Bath. Mr Robinson says he originally wanted to keep Stothert as one of his core companies and points to the company's decision to recruit more draughtsmen in October.

By that time Hollis was examining the possibility of moving the company to a new site outside Bath. However, it decided this would cost at least £5m and so it dropped the idea.

Before the buy-out Hollis took on 40 apprentices and demonstrated its commitment in the company when it bought the Ipswich crane maker, Ransomes and Rapier, for £1.5m and transferred its operations to Bath in 1987.

Most of the redundant workers should be able to find other work: Bath has a healthy economy with unemployment running at between 5 and 6 per cent. But its economy is strongly orientated towards service industries, with less than 15 per cent of the workforce employed in manufacturing.

Much of its prosperity is earned from tourism, which attracts between 2m and 3m visitors every year, and the council is concerned that heavy industry is retained to maintain a balance.

Mr Clive Abbott, chief executive of Bath City Council said: "The city had a little bit of a jolt two years ago when American tourism dropped because of the bombing of Libya and the Chernobyl disaster. It demonstrated how vulnerable we would be without other industries."

The tourists do not come to see Stothert & Pitt, but Bath will not be the same without it. The large yellow Stothert offshore crane standing this week on its test housing on the south side of the River Avon looks somehow out of place in the ancient Roman city of Aquae Sulis.

Overlooking the site from the grassy north bank is one of the Georgian terraces for which Bath is famed. "Beautiful isn't it," said Mr Peter Anderson, the general sales manager of Stothert & Pitt. He was looking at the crane, of course.

Construction machinery industry realigns

By Nick Garnett

THE DECLINE of Stothert & Pitt is part of a big reshuffle in the UK construction machinery industry. Many of the older companies have slipped and shrunk, some to be resurrected under new names. Meanwhile, new and aggressive groups have emerged.

That has gone hand in hand with a long slide in the importance of the UK construction equipment sector, although there has been a jump in unit sales during the past 18 months in line with the construction boom.

In the past 18 months, Aveling Barford, a maker of dump trucks, wheel loaders and other equipment in Grantham, and the Parker stone crushing equipment business went into receivership. Barber Green closed and sold its paving machinery operation in Suffolk.

Caterpillar, which makes backhoe loaders and lift trucks in Leicester, has closed two plants in Britain.

Of the older names in the industry, only JC Bamford, the privately-owned maker of backhoes, telescopic handlers and other equipment, MF Industrial, part of the Varity Group, and Grove Coles, the mobile crane maker have retained their positions.

However, there has been a recent upsurge in companies that appear to be going places in the industry. Aveling Barford has been bought out by a management group which has maintained the product range.

Brown Group, which started off in manufacturing with its Moxy dump trucks, has purchased Parker and taken over Hymac, an excavator maker.

The BM group has bought the Barber Green operation, moving it to BM's Goodwin Barsby company in Leicester which makes asphalt crushers.

Terex, after a long decline, is also going through a mini-revival. Its US parent, Northwest Engineering, has shut down a plant in Ohio, moving all production of dump trucks and scrapers to Scotland.

At the same time, DJB, which makes articulated dump trucks for Caterpillar, has also begun production of rough terrain forklifts.

UK NEWS

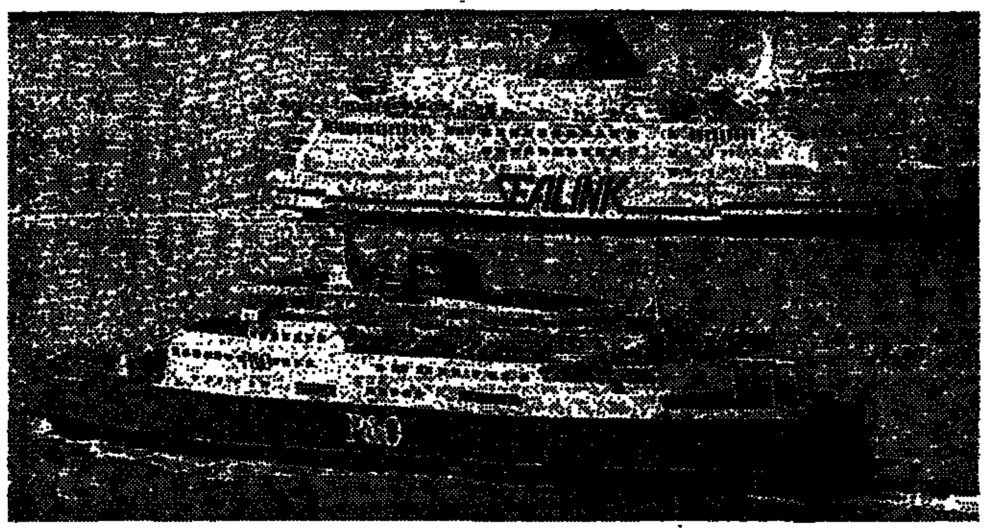
Sealink plans big investment programme

By Kevin Brown, Transport Correspondent

MR JAMES Sherwood, the American head of the Sealink ferry company, is planning a large spending programme to gear up for competition from the Channel Tunnel.

Sealink has been bouyed by a dramatic improvement in the performance of both Sealink and Sea Containers, the Bermuda-based parent company. Sea Containers is planning capital investment of more than $300m this year, of which around $175m will be spent on shipping and port assets. Spending over the next three years is likely to be significantly greater.

Mr Sherwood was in "an expansive mood at the moment," said an aide. "The strategy is to go out and put the company into a position where it can compete in the changing market."



Sealink plans to edge ahead of main competiter P&O in the race for Channel traffic

Sealink has just purchased a second hand car ferry for the Harwich to Hook of Holland service, and is scouring the second hand market for a freight ferry for the same route and two large ships for the Dover to Calais service.

Separately, an order has been placed with International Catamarans of Hobart, Australia, for two "wave piercing" high speed catamarans, each capable of carrying 100 cars and 500 people.

In addition, several shipyards have been approached to build up to seven new ships – including at least three vehicle ferries and two train ferries – at a possible cost of up to £300m.

Sealink is also seeking to acquire control or a significant minority stake in both the French and Dutch companies which operate Channel and North Sea services under the Sealink brand name.

In the UK, Sealink has its eyes on Caledonian MacBrayne, the Scottish ferry company which is part of the state-owned Scottish Transport Group. The Government has announced the privatisation of STG's bus interests, but has not yet clarified the long term future of CalMac.

Mr Sherwood believes the greatest threat posed by the Channel Tunnel is to the airlines, which he thinks will lose large numbers of passengers to the high speed train services between London and Paris.

"We believe there is still a very bright future for ferry traffic on the Channel, particular from private cars, caravans, and lorries – what we call the rubber tyre traffic," an aide said. "We are preparing to take on the tunnel; not only in terms of its quality of service but in terms of prices. We are convinced that there is still a very large market for the ferries, and it is our intention to compete strongly."

Sealink claims to have increased its market share by 10 percentage points last year, and says it controls 50 per cent of car traffic and 64 per cent of roll-on roll-off traffic on the key Dover to Calais route.

The company could face several difficulties this year, however. First, competition on the Channel and North Sea ferry routes is certain to increase after the effective end of a labour dispute which last year handicapped P&O European ferries, Sealink's main competitor.

In addition, the National Union of Seamen claims to be proceeding with plans to operate two ships on the Dover-Calais route. This may not happen, but a price war on short sea routes is likely as leading competitors fight for market share.

Mr Sherwood has not pursued plans to try to introduce manning arrangements on Sealink ships along the same lines as those which sparked the P & O dispute. However, union officials say they expect him to raise the issue again at some point.

There has also been union unrest about the transfer of some Sealink ships to flags of convenience, which offer cheaper running costs, and this could also prove a source of problems, especially if Mr Sherwood attempted to re-register ships crewed by militant Harwich-based seamen. The Sea Containers group remains the object of some suspicion in the City, partly because of the rather mercurial nature of Mr Sherwood. "The trouble with Sealink is that it's a one-man band, and he keeps changing his mind," said one analyst.

Ofgas to oversee industrial gas prices

By Max Wilkinson, Resources Editor

BRITISH GAS has agreed to a change in its licence which will give Ofgas, the government-appointed regulatory body, power to oversee pricing policy in industrial markets.

The change is likely to be approved by Lord Young, the Trade and Industry Secretary and by Mr Cecil Parkinson, the Energy Secretary early next week. It will allow British Gas to set whatever industrial prices it sees fit, but force the company to publish a tariff schedule and offer the same price to all consumers in similar circumstances.

When British gas was privatised two years ago, it was given a licence under the Gas Act, which subjected its prices for the domestic market to control under a formula supervised by the Office of Gas Supply (Ofgas). However, the director of Ofgas was excluded from supervision of the industrial market.

After the easing of gas prices in late 1986 and 1987, several industrial consumers complained that British Gas has lowered its prices to some customers with alternative fuel supplies, but not to those which were captive gas consumers.

The issue was referred to the Monopolies Commission, which reported British Gas had been using its monoply power to discriminate in the industrial market. It said the company must publish a price schedule supervised by Ofgas and that it should not be allowed to buy more than 90 per cent of the output of any new North Sea gas field.

The change of licence, which has now been agreed with Ofgas, deals only with the pricing issue. It will make clear that the Director of Ofgas will have power to ensure that the price structure is truly non-discriminatory, but will have no influence over the actual level of prices offered.

British Gas expects the schedule will result in price rises to some customers which have negotiated special deals. But it is thought that the arrangement will put general downward pressure on industrial gas prices.

Unions at odds over job reallocations in Europe

By Charles Leadbeater, Labour Editor

FORD'S decision to transfer production of its Sierra model from Dagenham in east London, to Genk in Belgium came after British unions rejected a proposed understanding with continental unions to oppose jointly any large reallocation of jobs within Europe.

In November, leaders of the West German union IG Metall suggested that the unions should approach Ford of Europe for talks over investment plans on the basis of an inter-union code to oppose large transfers of work.

German union officials said the British unions MSF, the general technical union, and the TGWU, general workers' union, rejected the agreement because they had a good working relationship with Ford of Europe and did not need a European-wide agreement.

Ford's UK unions hope to convene an urgent meeting with their continental counterparts to discuss the Sierra decision, and the company's move to introduce three-shift working at Genk. Union leaders fear that Ford and General Motors will press for revised shift patterns to allow more intensive use of machinery.

However, a recent IG Metall bulletin suggested that intense inter-union rivalry will hinder a joint European approach. It is understood that IG Metall has approached the company for talks over its planned £700m investment in the Bridgend engine plant in South Wales.

IG Metall leaders fear that unless some of the investment is diverted to Cologne, the company will stop producing engines there.

Scottish poll tax levels set to exceed expenditure guidelines

By James Buxton, Scottish Correspondent

THE VAST majority of Scottish local authorities are setting levels of the community charge, or poll tax, far in excess of what the Government said they should charge if they were to keep spending under control.

Although many of the councils that are substantially exceeding the guidelines are Labour-controlled, Scotland's three Conservative-controlled district councils are also set to overspend.

Mr Malcolm Rifkind, the Scottish Secretary, tried in November to pre-empt the local authorities by declaring what rate of poll tax each district ought to charge, assuming that they did not increase their spending in real terms. To help them keep the poll tax down the Government made an unusually large 9.8 per cent increase in their revenue support grant.

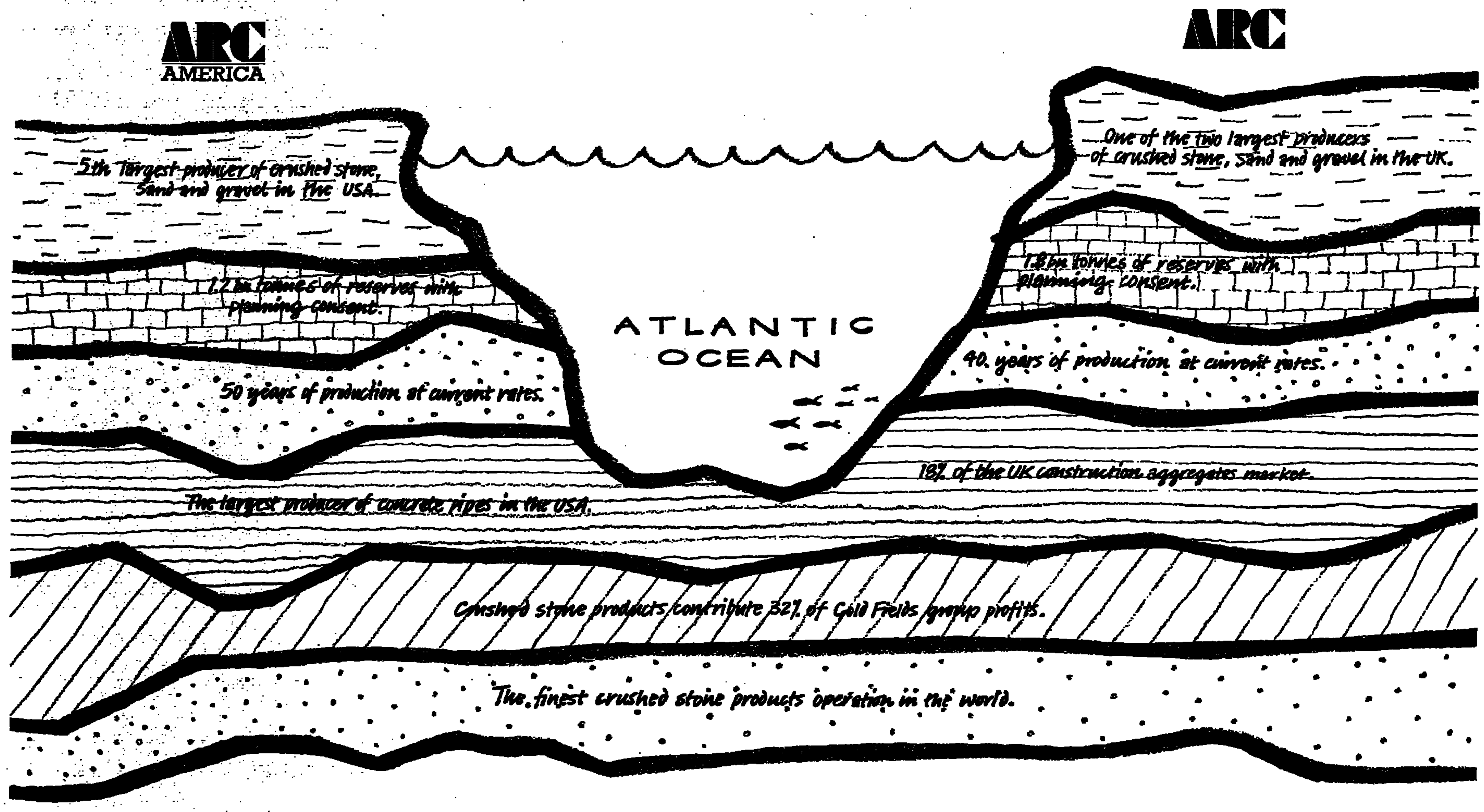
It calculated that the average poll tax for Scotland would be £267, with Edinburgh charging the highest rate of £313, and Orkney the lowest at £94. Glasgow would need to charge £293, the Government said.

Many of the councils complained that the Government's figures were inaccurate and others decided to increase spending regardless. Nearly three quarters of the councils which have already set their poll tax rates have exceeded the Government's figures by more than 20 per cent, some by more than 50 per cent.

Except for the island councils, which are unitary authorities, the poll tax is arrived at by combining the charge set by the regional council with the smaller charge set by the district.

Only in Strathclyde region has the poll tax come out within a few percentage points, and in some cases below, the Government's figures. Glasgow is to charge £306, only 4.4 per cent above the Government figure. The Strathclyde figures are low because the Government used its so-called "safety net" powers to give the region an extra increase in revenue support grant.

Mr Eric Milligan, president of the Convention of Scottish Local Authorities, said the figures showed how "ill-informed and intrusive" Mr Rifkind was in his estimates.



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Companies 'less prepared for tenders than councils'

By Richard Evans

CHANGES soon to take place in local authority tendering for services following the Government's recent legislation on compulsory competition could find private sector companies poorly prepared.

That is the most significant conclusion from independent research into private sector competition conducted for the Labour-dominated Association of London Authorities and its 14 member councils.

The research was done in two parts by a leading international firm of management consultants and by the London Research Centre, formerly the library service of the Greater London Council. They found a sharp contrast between the high level of preparation in the boroughs to cope with the advent of compulsory competition, and the lack of strategic planning shown by many private companies.

Compulsory competitive tendering (CCT) was the main element in the Local Government Act passed in the last session of Parliament.

It covers the services of refuse collection, street cleaning, catering, cleaning of buildings, and ground and vehicle maintenance. It will come into operation in stages from August 1 this year.

It will mean a potentially very large new market for private sector companies, but the ALA research shows that many councils have improved efficiency so markedly that in many cases they should be able to repulse private competition and continue to use direct labour.

Every industry association and big company interviewed by the management consultants considered the way compulsory competitive tendering was being implemented to be misguided. The reservations of the industry stem from a lack of capacity to cope with the rapid expansion, plus an impression that some local authorities would impose contract conditions that would make it unlikely that the private sector would bid for work.

"It is feared that there will be a backlash against CCT as the private sector is seen as unable to fulfil its role. The private sector wishes to absorb the local authority services but can only do so slowly," the report states.

Equally, contractors recognise that in many cases they lack the experience and trained staff to undertake some of the tasks required, like specialised catering or ground maintenance.

The research also shows the low entry levels required for services like street cleaning and ground maintenance, which could mean the emergence of new competition with minimal experience, no financial track record and possible loss-leader tactics.

For the bigger companies the interest in tendering for local authority contracts could be based on the acquisition of valuable assets like depots. That is particularly relevant in London because of high land values, and it would also enable a company to expand into neighbouring areas.

Mrs Margaret Hodge, ALA chairman, commenting on the research, said it refuted the widely held belief that private companies were inherently more efficient than public authorities.

"This research exposes a number of myths about competitive tendering," she said. "It shows that private companies are by no means as well equipped or as well prepared as local councils to provide good quality services while keeping costs to a reasonable level."

A contractors' database has been compiled by the ALA from work done by the London Research Centre.

Councils take stock after rebuff to Torbay

Richard Evans examines obstacles to early attempts to sell off local authority housing

TORBAY Borough Council is about to decide whether it should make another attempt to transfer all its housing stock to two privately-run housing associations, following an embarrassing rebuff from Mr Nicholas Ridley, Environment Secretary.

Council officials are still smarting from the publicity the council received from its first ballot of council tenants, even though it followed all legal requirements to the letter. They believe it should be the Parliamentary draftsmen in the stocks rather than them.

The trouble started when Torbay, like a lengthening list of other local authorities, decided last year to try to transfer its entire stock of 5,200 houses, valued at around £56m, to the two housing associations.

The subsequent ballot of tenants showed only 887, or 15 per cent, in favour of the transfer, while 2,210 or 42.5 per cent were against. It seemed a clear thumbs down.

Under the terms of the 1985 Housing Act - under which the Torbay council conducted the ballot - failure to register a vote can be interpreted as a vote in favour.

All the Act specifies is that: "The Secretary of State shall not give his consent if it appears to him that a majority of tenants of the dwelling houses to which the application relates do not wish the sale to proceed."

So Torbay decided that the votes of the 2,209 tenants who abstained could legitimately be placed in the Yes camp, giving approval to the transfer.

The Environment Department admits that this is technically correct, but Mr Ridley has been deeply embarrassed by the episode.

He wrote to the council earlier this month refusing to give the go-ahead and advising that it conduct a second ballot under more acceptable rules.

The Conservative-controlled council was told that a postal ballot of tenants might produce a higher vote than the original polling station ballot in November.

This recommendation is supported by the Electoral Reform Society, which conducted the original ballot.

A decision on whether to go ahead with a second ballot is due to be taken by the council tomorrow night, following consultations with the housing associations and with Environment Department officials.

Despite the embarrassment Torbay has caused, all the indications are that the sale of local authority assets will continue at a steady if unspectacular pace.

Furthermore the divestment of assets will probably involve Labour and Democrat councils, as well as those controlled by Conservatives.

The record so far is mixed, however, with the vast majority holding back to see what happens and how easily finance can be raised.

The only council to have completed the sale process is Chiltern District Council in Oxfordshire, where the finance has been provided by Paribas, the French bank.

Up to 150 councils have conducted feasibility studies on housing transfers and about a dozen are forging ahead with transfer schemes. They intend to avoid Torbay's voting own-goal.

Rochford District Council in Essex did run its ballot on the "abstainers vote yes" principle. However 87 per cent of tenants voted and 92 per cent of them were opposed to transfer.

Sevenoaks tenants in Kent have voted heavily in favour of transfer, while tenants in Salisbury rejected a transfer decisively. Other local authorities planning to hold ballots are Gloucester, and Arun, in West Sussex.

Most of the councils are Conservative controlled, but a handful of Labour authorities, including Swansea, are considering the idea on the grounds that transfer to a privately run housing association offers the best prospect for continued low rents.

There is an admitted element of self-interest at work as well.

Housing stock is becoming more difficult to administer and maintain efficiently, because of the number of houses being bought by tenants.

Local authorities fear the situation will get worse once whole estates are transferred to private landlords under the terms of the 1988 "tenants' choice" Housing Act.

It is partly a matter of pulling out of a declining industry, and two to three dozen councils could make the move in the next year.

In a typical transfer the local authority reaches agreement with an existing housing association or helps to set up a new one.

Rents from the transferred tenants go to repay the loan raised by the association to buy the houses, and towards maintenance and administration.

Some authorities are holding back because of possible financial difficulties, but so far the indications are that the finance is available if required.

Among the options are fixed interest loans, deferred interest loans, straightforward bank finance, or a combination of financing instruments.

The full provisions of the 1988 Act will allow tenants on individual housing estates to vote in favour of transfer to a private sector landlord or housing association, no matter what the attitude of the local authority.

These provisions are only now coming fully into force.

The current trickle of transfers is council-led, and is taking place under the 1985 Act backed by guidelines put out by the Environment Department last June. From now on, the two systems will run in parallel, with transfers sponsored either by the local council or by tenants.

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- There must be adequate consultation with tenants.

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Costs of green belt estimated at £14.6bn

By John Hunt, Environment Correspondent

THE green belt round London has imposed a total cost of about £14.6bn on Britain according to a report researched by Business Strategies for ARC Properties.

The figure is based on the additional cost of building sites caused by the land shortage resulting from protection of the green belt. It takes into account house price inflation, higher wage costs in the south-east, labour shortages, higher industrial and commercial rents and the way those feed into the economic system.

The report claims that if all 16 of Britain's green belts are taken into account, the total cost to the nation could account for well over 10 per cent of gross national product.

Mr Tony Burton, planning officer for the Council for the Protection of Rural England, said he was amazed by the report. He maintained that overheating in the south-east economy and excessive lending by mortgage institutions bore most blame for high house prices.

"Abolish the green belt tomorrow and you would do nothing to help those in real housing need," he said.

ARC, the property development arm of the ARC Group, recently applied for planning permission to built a very large shopping centre in green belt land at Wraysbury, Berks, but the plan was rejected on appeal. However, a spokesman for the company said the present report was commissioned before the result of that appeal had become known.

The document concludes that house prices in London and the south-east are £3,617 higher on average because of the prohibition on building in the green belt. This is equivalent to an extra £9 a week for those paying an average mortgage in the area.

It estimates that current policies give up operating costs for industry and commerce with earnings 3 per cent-4 per cent higher because of high housing costs.

The report says about 40 per cent of the total London green belt of 1.2m acres consists of land damaged by some form of dereliction.

Report from ARC Properties, 20 Manvers Street, Bath BA1 1LX. Price £25.00.

Labour warns against US-style health care

By Rachel Johnson

US-STYLE health care would be a disaster for Britain, the Labour Party claims in a consultative document published today.

"Americans are astonished that suggestions are being made in this country to introduce competition and the market into health care," the report says.

The report, written by Ms Harriet Harman, one of Labour's health team, says government plans to change the UK health system "are not new ideas. They have already been tried in the US – and failed."

The report is intended to influence public opinion in advance of the publication next week of a white paper on the National Health Service.

It says Americans believe their health care system has failed and that it would be foolish of the British Government to adopt a competitive system similar to that in the US.

The US spends more than any other country on health care – 10.7 per cent of gross domestic product, compared with 5.9 per cent in the UK – but this largely reflects unnecessary treatment and a bloated bureaucracy, the report says.

Administrative costs would increase if the UK introduced competition. US health care "is weighed down by a huge bureaucracy of delivering bills and reclaiming them from insurance companies."

The NHS is streamlined in comparison because it is a "planned, centrally financed service."

The report says it is "deeply ironic" that suggestions have been made to introduce competition into the NHS, and that hospitals should be allowed to opt out of local authority control at a time when many Americans are looking to the British system for ideas.

The most fundamental criticism in the report is that the poor lack sufficient treatment in US public hospitals, while the rich suffer from over-treatment because commercial factors influence clinical decisions.

MPs to seek review of Ministry of Agriculture

By Michael Cassell, Political Correspondent

THE GOVERNMENT will this week face further pressure in Parliament to review the responsibilities and structure of the Ministry of Agriculture, Fisheries and Food, following the controversy over its handling of recent outbreaks of food poisoning.

MPs on both sides of the Commons have expressed increasing concern over what they see as the conflicting roles of the ministry, which is responsible for farmers and food production. It also has to police the food industry to safeguard the consumer.

Sir Richard Body, a former chairman of the Commons select committee on agriculture, has already asked Mrs Thatcher to scrap the ministry, and Mr Robert McCrindle, Conservative MP for Brentwood and Ongar, is expected today to table a Commons motion asking the Prime Minister to establish a ministry of consumer affairs.

He said yesterday that there was a "powerful case" for a new ministry - the recent controversy over food hygiene had proved the need for a ministry to look after the interests of the consumer, while leaving the present ministry to represent producers.

Mr McCrindle added: "The Government has sometimes been criticised for being more concerned with the interests of big business than the consumer. The creation of a government department devoted to the consumer would help to dispel this idea."

Power boards oppose rule for privatised grid supply

By Max Wilkinson, Resources Editor

THE 12 area electricity boards, which are to be privatised in 18 months, are trying to find ways round regulations which appear to stop competition between suppliers.

Draft rules for the privatised industry, published earlier this month, say that all but the smallest power stations must submit to "despatch" by the central controllers of the national transmission grid. That means the control centre can turn plant on and off to prevent blackouts and to ensure that only the plant with lowest fuel costs is kept running as demand slackens.

The 20 or more potential independent power suppliers now negotiating with area boards want long-term agreements which will allow the new plant to keep running at full capacity. That is because most such projects would be financed 80 per cent by bank loans. The bankers would need assurances that the plant could guarantee to sell its output for the 10- to 15-year life of the loan.

The Government's draft licences for the industry, which included the rules for despatch, were regarded with dismay by most independent producers, because they appeared to remove control over the output of the plant from the owners and give it to the grid. That would apply to all plant of more than 100MW output.

Several area boards which foresee an increasing demand for power have suggested that some contracts might be effectively exempted from central despatch. However, the National Grid Company (now established in shadow form) opposes this.

The Central Electricity Generating Board, whose power stations are to be divided between two competing companies, has expressed strong anxiety about the moves. It fears that in the new competitive power market, the area boards might unfairly favour power stations which they owned or had under contract from an independent power producer.

In the new system, area boards will buy most of their electricity under contract from power stations owned by generating companies. These contracts will include a fixed charge to cover capital costs, and a running charge to be paid whenever the plant is producing electricity.

It is envisaged that the 12 area boards will put all these contracts into a common pool so that only the plant with lowest running costs would be called upon at any given time.

One idea is to make this pool voluntary so that certain independently owned power plant could be excluded and always kept running. Unfortunately, this would be risky for the area board which had signed the contract with the producer, because the board would be obliged to pay for power from this plant, even if its fuel costs became much higher than those of competing plant.

A second possibility under discussion would be to load a high proportion of the cost onto the fixed charge, which will be passed on to electricity. However, the Government has yet to decide how much of an area board's costs may be passed on to the customers if they exceed average costs for the system.

A board signing up an independent power producer would therefore have to take a calculated risk that the costs of that particular plant would not rise much above average for at least a decade.

A third possibility would be to persuade the independent power producer to vary his fuel charges so that the plant was always despatched – that is, switched on in competition with other plant. The independent producer would then take the risk that the payment he received for fuel might not cover his actual costs in periods of slack demand for electricity.

Intense discussions are now taking place to find a way of sharing these risks between the independent producers, area boards and consumers.

The Government has so far taken a fairly robust line against passing the risk to consumers.

Inequalities in income widening, study shows

By Ralph Atkins, Economics Staff

INEQUALITIES in income between rich and poor households have widened in the past decade even after taking account of taxes and benefits, according to official estimates.

The proportion of income going to the poorest 20 per cent of households fell between 1975 and 1986 but the share going to the top 20 per cent rose, figures from the Central Statistical Office show.

This widening of the income gap is particularly pronounced in the original incomes of households, before taxes and benefits. However, the gap has also widened in estimates of final incomes. These estimates allow for the effect of taxes and state support, including benefits in kind such as state education and school meals.

The results come from a study of the redistributive effect of government spending.

The study shows that state intervention does reduce inequality but that redistribution since the mid-1970s has not kept pace with growing inequality between original incomes.

The original income of a household includes earnings from employment, occupational pensions and investments.

In 1975, original incomes of the poorest fifth of households accounted for 0.8 per cent of total incomes. By 1986 this had fallen to 0.3 per cent. Final incomes of the poorest fifth accounted for 7.1 per cent of the total in 1975, falling to 6.3 per cent in 1986.

At the other extreme the richest fifth of households took 44 per cent of original incomes in 1975 rising to 51 per cent in 1986. The share of final incomes rose from 38 per cent to 42 per cent over the same period.

In 1986, the average original income of the poorest 20 per cent of households was £130 a year. The average original income of the top 20 per cent was £24,790.

Average final incomes, after taxes and benefits, for the two groups were £4,130 a year and £17,260 a year respectively.

CSO Economic Trends No 422, HMSO, £9.25.

Salford University may join schools and industry compact

By David Thomas, Education Correspondent

SALFORD UNIVERSITY is planning to join a local compact between schools and industry in a move which could increase the numbers of pupils from deprived inner-city schools going to university.

The compacts are agreements between businesses and schools in urban areas under which employers give priority in recruitment to pupils who reach agreed standards of achievement and commitment.

The Government is so convinced of the potential of the compacts that it is helping to fund 30 new ones. The first UK compact began in east London in 1987.

Salford, in one of the first moves by a university to become formally involved in a compact, has discussed its role with businesses and schools in Salford, one of the most deprived inner city areas in the north-west.

The university's participation would be aimed at prolonging the time spent in the educational system by pupils from deprived backgrounds. This has emerged as one of the main benefits of the east London compact.

Professor John Ashworth, Salford's vice-chancellor, said that the university's involvement could take three forms:

● It could encourage some of its science undergraduates to teach in local schools. This would ease the severe problems that inner city schools have in attracting teachers for some subjects, such as science. Professor Ashworth said that the undergraduates would spend about half a day a week for a year on this programme, which would be equivalent to the links which other Salford undergraduates develop with commercial companies.

● The university would guarantee to take on undergraduate degree courses a percentage – perhaps a quarter – of students studying in local colleges of education for vocational qualifications, such as a Higher National Diploma (HND). This guarantee, equivalent to the jobs' guarantee offered by employers in the compact, would boost the status of HND courses and promote a route into university for students not attracted to studying A-levels at school.

● The university would encourage local schools to use its facilities such as laboratories.

Professor Ashworth said that Salford was already engaged in some of these activities but the compact would give its participation greater coherence and allow it to be expanded.

Council plans Crimean resort

By Paul Cheeseright, Property Correspondent

GLASNOST has spread to Matlock, where the Labour-controlled Derbyshire County Council has raised local eyebrows with plans to become a property developer on the Crimean coast of the Black Sea in the Soviet Union.

The idea, evidently hatched two years ago on a beach walk by Mr David Bookbinder, the council leader, is for a tourist resort – hotels, apartments, villas, and a golf course – near Yalta.

The council said the project could be worth £500m, but so far no ratepayers money is involved.

Mr Bookbinder has persuaded Mr Owen Oyston, formerly an estate agent, now chief executive of Miss World, to take the initial risk.

The two became friends when Derbyshire Pension Fund put money into the ill-fated News on Sunday newspaper, which Mr Oyston temporarily rescued, and then switched its funds into one of Mr Oyston's companies.

So far, the risk is not very great. There is an agreement with the Yalta City Council and an approval for the scheme from both the Ukraine and Soviet Union governments. A joint venture company has been set up – 51 per cent for the Crimea Regional Council and 49 per cent for the Derbyshire County Council and Mr Oyston – to lease the land.

However, money has been spent on a design by architects Robshaw Redmond, and on the travel involved in the official negotiations. Finance will be more complicated, and will be charged to Derbyshire ratepayers when a feasibility study is carried out.

"Then it will be time for the bulldozers," said Mr Bookbinder.

Mr Bookbinder and Mr Oyston hope that by then hoteliers and banks will be rushing to invest in this elaborate celebration of local authority collaboration, East-West commercial *entente* and the twinning agreement between Derbyshire County Council and the Crimea Regional Council.

Inflation rise may go on despite curbs says Amex

By Terry Byland

WARNINGS against over-optimism regarding inflation on both sides of the Atlantic form the keynote of today's edition of the Amex Bank Review.

"Underlying inflation rate is now about 6 per cent in the UK and 4 per cent – 5 per cent in the US, with a clear acceleration in the second half of 1988," says the Review.

It perceives that the problem may be less severe in the US than in the UK, but adds that "monetary policy is not nearly as tight in the US."

High interest rates are "beginning to bite" in Britain, it adds, but the immediate effect of this economic slowdown may be higher inflation, because wage demand will be slower to adjust.

In the US, real interest rates are still below the ranges set between 1983 and 1986 and Amex suggests that consumer spending may not slow until rates have been raised significantly, in company with a major setback in both bond and equity prices.

Against this backcloth, the Amex review fears that rates of around 9 per cent on both UK Gilts and US bonds could suggest too much optimism in the financial markets towards the authorities' anti-inflation policies.

"The problem for 1989 may be that in one or both countries, the slowdown (in growth) does not occur." In the UK that would mean higher inflation and worsening trade figures.

In the US, the consequence of continued growth might be less serious but the Federal Reserve would have to tighten its Funds rate by a further 200 basis points to effect a squeeze similar to that on this side of the Atlantic.

Packaging suppliers criticised

By Christopher Parkes, Consumer Industries Editor

CONTINENTAL packaging suppliers operating in the UK offer a better deal than their British competitors, according to a National Economic Development Council report.

On price, quality, delivery, value for money and customer service, they serve better overall than UK companies and pose a considerable threat to the indigenous industry.

The £6bn packaging industry will face tough competition from overseas companies when European Community markets are integrated in 1992, Ms Rowena Mills, chairman of the council's packaging working party, said at the weekend.

Foreign suppliers interviewed for the report by Metra Consulting said their strength stemmed from viewing Europe as a single market, as well as from specialisation, investment in quality, customer care, research and development.

They identified the British industry's main weaknesses as failure to prevent delivery problems, complacency and failure to control costs, even though personnel costs had been reduced.

They also accused British management of being over-concerned with the production process. "Over and over again we have seen production people put into marketing posts: this disadvantages us as suppliers," said Mr Peter Gorle, a Metra executive.

In the short term, he said, British packaging makers should improve communications with customers at all levels. Representatives should be transformed from order-takers to order-getters, he said.

UK producers should also undertake more long-term planning and investment in new skills, innovation, marketing and learning languages.

There were already signs that packaging users were stealing the initiative in innovation. "We are coming to the situation where the user is calling the tune," Mr Gorle said.

The battle for the packaging machinery market appears already to have been lost, with imports taking a 68 per cent share of the market, according to the report.

Overseas suppliers have a 28 per cent share of the business in packaging and wrapping paper for food use, 17 per cent of the £510m trade in plastic film, almost a quarter of the fast-growing £250m laminates business, and account for 8 per cent of dealings in the basic business of folding cardboard cartons, worth a total of £800m a year.

The future of the UK packaging industry will be discussed at a national conference to be held at the Confederation of British Industry's London headquarters on July 18.

UK Packaging – Food for Thought. NEDO Books, Millbank Tower, Millbank, London SW1P 4QX. £50 (£52 for overseas orders).

Government accused of false claim on secrets bill

By Michael Cassell, Political Correspondent

THE Government's controversial legislation to reform the Official Secrets Act 1911, which this week enters its committee stage in Parliament, yesterday came under renewed attack from the Campaign for Freedom of Information.

The Official Secrets Bill, which proposes to replace the "catch-all" nature of existing legislation with six specific categories of protected, official information, has already attracted a large number of amendments, including several from Tory MPs.

The aspect of the bill criticised most widely is the Government's decision not to include a defence under which disclosure could be justified on the grounds that it is in the public interest.

Ministers claim the concept cannot be incorporated in the criminal law but several amendments which would provide a public interest defence have been tabled for debate.

The Campaign for Freedom of Information claimed yesterday that the Government's rejection of a public interest defence was based on arguments "which could not withstand scrutiny".

Mr Maurice Frankel, director of the campaign, accused the Government of making false claims in suggesting there was no respectable precedent in British criminal law for a public interest defence.

He added: "The Government is saying that, no matter how grave the problem, the only permissible solution even for a journalist is to report the matter to the proper authorities and to keep quiet. Even if they fail to act, and the choice is between exposing the abuse or remaining silent, the Government is telling us our duty to society is to remain silent."

Japanese say language affects location choice

By Della Bradshaw

THE ENGLISH language and culture are the main reasons given by Japanese companies for choosing the UK as their European manufacturing base, according to a report from the management studies group of Kings College, London.

Britain, West Germany and latterly France have become the three preferred locations in Europe for Japanese companies wanting to set up in Europe, the report says. As well as languages, the UK's advantages are a skilled workforce and low wage bills, but it is West Germany that is perceived by the Japanese as having the most productive and committed workforce.

The authors of the report, which was funded by the Economic and Social Research Council, questioned 36 Japanese companies with manufacturing facilities in Europe about their reasons for choosing specific locations. The companies covered a wide range of industries, from rubber to electronics and mechanical production.

Japanese investment in Europe is principally motivated by the need to circumvent EC-imposed restrictions on the import of goods, according to the 36 companies interviewed.

Manchester canal's status under scrutiny

By Ian Hamilton Fazey, Northern Correspondent

THE PUBLIC inquiry into Manchester Ship Canal Company's plans to change its statutes will open on February 7 and looks certain to prolong the four-year controversy about control of the canal.

The company wants the Government to pass a Harbour Revision Order removing the statutory right of Manchester City Council to a boardroom majority of one. That would smooth managerial control, but is being opposed by a large group of mainly London-based minority institutional shareholders.

They include Globe Investment Trust, Prudential Assurance, the Water Authorities Pension Fund, the Carroll Group and the 1,000-strong Smaller Shareholders' Association. They are led by Mr Nicholas Berry, chairman of Harrap.

Mr John Whittaker, the Manchester property developer and chairman of Peel Holdings, won control of the company nearly two years ago after a bitter, nine-month takeover battle.

His private company Great Hey Investments owns half of the ordinary shares and 30 per cent of the less valuable preference stock. There are equal numbers of each type of share, which carry equal voting rights.

The Harbour Revision Order is being supported by the city council in return for repayment of debentures worth £7m and a half-share in a joint property company with Great Hey which would guarantee the city profits of £3m within three years.

Mr Whittaker tried to buy out the remaining ordinary shareholders at £20.70 per share last year, but was rebuffed.

They believe that the value of the company will rise dramatically if planning permission is given for a 1m sq ft retail centre on 300 acres of land owned by the canal company at Barton dock, on the north-west's comprehensive motorway network.

They have adopted spoiling tactics to hamper Mr Whittaker since he won control, hoping to force a higher offer.

The result of a public inquiry held last year to choose between the Barton Dock scheme and two competing retail centres in the area is expected before the end of this month.

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MANAGEMENT

European electronics

Nokia: metamorphosis is only the beginning

Della Bradshaw and **Olli Virtanen** assess the challenges still to be confronted by the Finnish group following its diversification and the death of its former chairman

The death last month of Kari Kairamo, chairman and chief executive of Nokia, one of Finland's largest companies, together with indications that the group's performance in 1988 will not match original expectations, raises questions about its underlying strategy. This has been to diversify rapidly away from its original base in rubber products and paper and into electronics.

Kairamo's successor, Simo Vuorilehto, insists that the restructuring is sound and is already beginning to show positive results. He points out that, as president and chief operating officer of Nokia, he was Kairamo's right-hand man in planning and implementing the restructuring of the company.

"Ten years ago we were quite a traditional company – I don't like to use the expression 'old-fashioned'. Now we are becoming a modern company," he says.

It is inevitable that the strategy will now be implemented differently. Kairamo and Vuorilehto were worlds apart in their style of management. In contrast to Vuorilehto's more hands-on approach, Kairamo was the great communicator who gave a big boost to the company's self-confidence in world markets. He was an outspoken and unrelenting executive.

In addition Kairamo took part in various pan-European working groups and he was not shy to voice his opinions of Finland's foreign policy. He enjoyed great respect in Finland; his corporate vision was practically never questioned publicly until his death. During recent weeks, though, some serious questions have been raised about Kairamo's legacy.

The Finnish company is taking an enormous gamble. It is betting it can enhance its reputation as one of Europe's leading electronics companies through a two-pronged programme of acquisitions (now largely complete) and buying in international management to run the new divisions.

A decade ago the profits of Nokia, Finland's largest industrial company, came from paper, cable and rubber products. (It is still the world's leading supplier of cable-making machinery, for example.) Its presence in the electronics industry was minimal.

But the jolt of the oil crisis in the 1970s persuaded then-president Bjorn Westerlund that heavy industry no longer provided a sufficiently high growth potential, and so the company would have to back a different horse if it were to expand and become more profitable.

Joint ventures, collaborative deals or acquisitions could all be announced in the next year. In addition, the company is divesting itself of many of its small traditional Finnish divisions

Because Nokia was already producing telecommunications cables in its cable division it decided to expand into communications. It acquired the Mobira mobile radio business in the late 1970s in order to consolidate that area.

Success there led Nokia into the office computer and retail electronic point-of-sale market in the late 1970s and early 1980s. In 1980 Nokia set up its own microchip company, Micronas, to support the product areas.

In 1984 the company made its first move into the consumer electronics business when it bought into the Swedish Luxor and Finnish Salora colour television companies. (It has since bought the French Oceanic television manufacturer.)

It calculated that its expertise in selling into the consumer marketplace through its traditional divisions – rubber shoes and tissue paper, for example – could be carried over to consumer electronics.

But it has been a handful of major acquisitions over the past two and a half years that has completed the metamorphosis of the wood and rubber boot company into an electronics one. Two-thirds of the company's sales of FM22bn (£2.9bn) this year will be in electronics, compared with only 10 per cent in 1980.

The two most significant acquisitions have been of the television division of the West German company Standard Elektrik Lorenz (SEL), a subsidiary of Alcatel (and formerly part of ITT), and the microcomputer division of Ericsson Information Systems (EIS), part of the Swedish Ericsson telecommunications group. Nokia bought the SEL division in December 1987 and the EIS one in January 1988.

The acquisitions mean that Nokia Consumer Electronics is now the third largest television manufacturer in Europe, behind Philips and Thomson, and Nokia Data Systems is Europe's seventh largest information technology manufacturer.

Nokia now has television manufacturing sites in six European countries, and established marketing outlets for its computer products in Germany, the UK and France as well as Scandinavia.

Nokia believes the formation of the larger television manufacturing division will give the company the market share, and consequently the cash, it needs, to develop the next generation of television equipment. The last major development was the move from black-and-white to colour sets in the 1960s. The next will be into high definition television (HDTV), which will provide much sharper television pictures on wider screens.

Development work on HDTV is already under way, although the sets are unlikely to reach the mass market before the middle of the 1990s. Nokia intends to be one of the major producers in spite of competition from the Far East.

"At the moment the cheapest television sets are made in the Far East, but that is because we are going through the last phase of current television technology," says Jorma Ollila, senior vice president in charge of finance. "In the future it will be the companies with sound technology that will do well. After all, less than 20 per cent of the cost of producing colour televisions goes on labour."

The need to buy market share was equally important in data products. Most major organisations are already equipped with some sort of computer system, according to Kaarlo Isokallio, president of Nokia Data Systems. So the main growth area in the future will be in upgrading computer installations, not in attracting new business.

He believes his company has now got a large enough customer base to thrive on that. "The growth of the information technology industry will be about 10 per cent or less in the future – not the 25 per cent figure we've seen in the past," says Isokallio.

Although Ericsson suffered heavy losses through its data division, particularly in the highly competitive US microcomputer retail market, the company had clawed its way back to the break-even point before Nokia decided to buy. Isokallio believes he can make the company healthy by reducing fixed costs and improving marketing techniques.

Even though Nokia's aim is simple, implementation of its "buy-and-integrate" policy may not be so easy to achieve. Isokallio believes the merger of the two computer companies took an unnecessarily long time. "I thought it would take about four months to bring the two companies together, but it has already taken nearly a year," he admits.

However, Nokia maintains that the success it has had in restructuring and integrating the Luxor and Salora consumer electronics companies is demonstrable and a clear indicator of the future profitability of both its re-aligned computer and television divisions. And Vuorilehto flatly denies speculation that Nokia bought more rot than it anticipated and says that "by the end of this year we have to consider the next offensive move in information systems."

Although acquisition is one of the main planks of the Finnish company's strategy, it has adopted a different approach in cellular radio telephones, where it is the world's number one producer.

Success has been largely due to volume sales in the American market, achieved through a joint venture deal signed in 1984 with Tandy, the American high street electronics group. The phones are manufactured in South Korea and then sold through Tandy's shops in the US.

As with television sets, the technology for cellular radio has also reached a plateau and Nokia will have to invest in the next generation of equipment if it is to maintain its market lead.

The next leap forward in cellular radio will be a high-frequency system using the digital language of computers, and should be in service across Europe in the early 1990s, followed by the US and the Far East.

Nokia argues that in spite of the success of the American operation with Tandy, the company's approach to the pan-European cellular radio market must be different in order to satisfy market demands. Instead of going it alone, Nokia has set up a consortium with two other European manufacturers, Alcatel and AEG, to develop infrastructure equipment and handsets for the proposed service.

The logic is that the alliance will help spread the development costs for the system as well as giving Nokia a foothold in the EC market.

Nokia is likely to adopt a similarly pragmatic "horses for courses" approach to any future marketing or technology deals, according to Lauri Ratia, Nokia's vice president for corporate planning.

Joint ventures, collaborative deals or acquisitions could all be announced in the next year. In addition, the company is divesting itself of many of its smaller traditional Finnish divisions – ten have been sold in just over two years, mainly in niche markets

Nokia already has more locations in the European Community than in Finland and is due to relocate the head office of the television and consumer electronics division to Geneva early this year. The headquarters of two other divisions, as yet unidentified, will also be relocated in Europe during 1989.

Vuorilehto hopes the relocation will also have the effect of luring international managers. "We have to get new people, and people who think differently."

Vuorilehto believes it will take up to five years for the new company structure to be consolidated and the new management put in place.


Simo Vuorilehto

Flying by the seat of the pants — or by numbers

Beneath a softly-spoken, father-figure exterior, Simo Vuorilehto, 58, is a rather tough executive who, unlike his predecessor, Kari Kairamo, is used to making redundancies and cutting dead wood where he sees it.

Vuorilehto's personal style, talents and aspirations will clearly cause a number of immediate changes to be made in the way Nokia is run.

First, he will not seek to inherit Kairamo's memberships in various international organisations. Instead, the tasks will be largely delegated to Paavo Rantanen, member of the board of directors and until recently Finland's Ambassador to Washington DC, who will be Nokia's "foreign minister".

The highly visible, public relations-minded style of Kairamo was a necessity while the company was establishing its name in international markets. The new chief executive, in contrast, wishes to keep a lower profile.

As one high ranking Nokia official puts it, it was Kairamo who breached the wall of obscurity through which the whole management was able to walk to global recognition.

Another contrast with Kairamo is that Vuorilehto will be much more a chief executive than a chairman, continuing to stay elbow-deep in the nuts and bolts of business operations. Kairamo often flew by the seat of his pants but Vuorilehto will fly by numbers.

Vuorilehto claims that the change of pilot will not have any major effect on Nokia's long-term plans. And he is quick to point out that the rapid expansion, which doubled the group's turnover in just about two years to about $5bn, was systematic and well controlled.

Vuorilehto is the first to admit, though, that the acquisitions, which drained the company of about FM2.5bn (over £300m) in 16 months, have put a heavy burden on the group.

"It would have been better to spread the acquisitions over three years," he says, "but you can't always choose the timing. You have to act quickly when opportunity knocks."

LEGAL COLUMN

Government lawyers are catching up - at last

By David Churchill

THE GOVERNMENT has belatedly realised that, as far as its own lawyers are concerned, it has rather missed the boat in the past couple of years.

As demand for the services of lawyers has grown by leaps and bounds from both industry and private practice, so pay levels in the government legal services have fallen behind the going rate.

Yet lawyers working for the Government can now look forward to some hefty pay rises – possibly as much as £10,000 more for the very senior lawyers – as a result of last week's report by Sir Robert Andrew.

Sir Robert, formerly a top civil servant in the Northern Ireland Office, was asked at the beginning of last year to review the Government's legal services with the aim of making them both managerially more efficient and also to attract new recruits.

He notes in his report that during 1987, law officers in government service "were alarmed at the loss of experienced officers who could not be replaced, the heavy burden which was being put on remaining staff, and the consequent adverse effects on morale and efficiency."

Sir Robert also comments: "The position was being made worse by a heavy legislative programme and the increasing use of the process of judicial review to challenge the government's decisions in the courts."

Yet this was not the first time the legal services provided by the Government had run into difficulties. As Sir Robert points out, "the way in which legal services are provided for central government has developed over the years in a somewhat haphazard way, which owes more to history than to logic."

In fact the office of Treasury Solicitor dates back to the middle of the 17th century. During the following centuries a number of government departments acquired legal officers, while others were content for the Treasury Solicitor to act for them.

Management must be seen to be taking an interest in those who are not high-flyers

Over the past century, these arrangements have been scrutinised on several occasions. The two ever-present themes, however, have been the way the service was organised and the difficulty of recruiting good lawyers to work for the Government.

Sir Robert says he was very conscious of "getting it wrong" with any organisational changes and so has, not surprisingly, plumped for a status quo in the general organisation of the Government's legal services, with one important proviso.

This is the opportunity – in line with government policy – for individual departments to contract out work to private practice if the necessary expertise or resources do not exist within the Government or if it is more cost-effective for the work to be done outside.

More importantly, he proposed – and the Government has accepted – the suggestion that the Treasury Solicitor's department and the office of the Attorney General should be merged to form one department. The Attorney General would be the head while the Treasury Solicitor would become Permanent Secretary of the department.

Yet Sir Robert also recognises what is more of an immediate problem for lawyers in government service: the need for adequate career development.

Working for the Government can itself be exciting – the Crown prosecution service, for example, handles all the criminal cases in England and Wales.

But the report suggests ways in which management can identify "which are the round and which the square pegs" and fit them into appropriate holes.

The difficulty of recruiting and retaining staff is restricted almost entirely to London

He believes that management "must be seen to be taking an interest in those who are not high-flyers and, for example, arranging moves for those who have been employed for a long time on routine work and would welcome a change."

Yet the central problem addressed by the review was the recruitment and retention of high-calibre legal staff for the Government's legal services.

"I hear much praise for the quality of service provided by government lawyers and comparatively little criticism," says Sir Robert. "But there are not enough of them to cope with the increasing workload and there are worries whether quality can be maintained in future."

In future, the Government plans a two-stage approach to this problem:

● The system of recruiting will be widened to target not only experienced lawyers, but also undergraduates who are at present snapped up by the big City law firms and the Bar.

The Government plans to provide financial assistance to candidates to complete their professional education and then to offer facilities for articled clerkships and pupilage.

In addition, special efforts are going to be made to recruit more married women – especially on a part-time basis – as well as attracting older lawyers who want a career change.

● Selective increases in pay will be implemented to match the salaries in the private sector.

Sir Robert's report says that the difficulty of recruiting and retaining staff is a problem almost entirely restricted to London.

"There is also a need to recognise differences in job weight, skills, and marketability," he says.

Basic rises – which the Government has already accepted – will be at least £2,500 a year for many lawyers in government service.

However, taking other factors into account could give some senior lawyers much higher increases.

Sir Robert says: "I would envisage that a lawyer working in London and occupying a post of the highest value in terms of job weight, skills, and marketability might receive a total increase of up to £10,000 a year."

Such increases, however, will depend on the decision of the Top Salaries Review Board.

Sir Robert points out that it will be necessary to keep these increase under review. "If the rewards paid in the private sector continue to rise, further selective increases may be necessary," he says. "If the London factor spreads to other centres, pay rates there may also need to be adjusted."

Efforts should be made to improve the image of government lawyers, as well as their pay

Yet it is not just pay that needs to be increased in Sir Robert's opinion. "Efforts should be made to improve the status and 'image' of government lawyers," he says.

However, he does not spell out whether this will require a major advertising campaign – or whether a television company will have to create a soap opera around the Government's legal service!

Review of Government Legal Services. HMSO. £11.50.

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS JANUARY 16TH 1989

ABRAHAM, David Kenneth Mr, Aberystwyth, Dyfed, Wales
ALEXANDER, Miles Anthony LL.B Mr, London
ALHADEFF, Guy Nigel B.A. Mr, London
ALLEN, Geoffrey Mr, Alford, Lincolnshire
ALTUG, Ian Ayhan Mr, Colchester, Essex
ANDREWS, Janette Hazel B.Sc Miss, Birmingham
ASQUITH, Jay Mrs, Gomersal, West Yorkshire
AUCOTT, Kimberley Jane LL.B Miss, Macclesfield, Cheshire
[illegible]

FLOCKHART, Peter Roy LL.B Mr, London
FORD, Jonathan Christopher Russell B.A. Mr, Hove, East Sussex
FORTE, Pamela B.A. Mrs, Barry, South Glamorgan
FRANCIS, Alison Jane Lorraine B.Sc Miss, Windsor, Berks
GAUNTLETT, Kevin Rees LL.B Mr, Bromley
[illegible]

LLOYD, Jeremy Neil LL.B Mr, Liss, Hampshire
LOCKETT, Denise LL.B Miss, Stoke on Trent
LONG, Peter William B.A. Mr, Hove, East Sussex
LUTTMAN JOHNSON, Anne Elizabeth B.A. Miss, Petworth, West Sussex
MATTHAMS, Paul James M.A. Mr, St Clement, Jersey, Channel Islands
MAZZOCHI, Richard John Patrick
[illegible]

SHANNON, Patrick Christopher Mr, Nottingham
SHEKLETON, Lisa Jane B.A. Miss, Walsall, West Midlands
SHERRATT, Richard James LL.B Mr, London
SHIELD, Gemma Mary LL.B Mrs, Sheffield
SMITH, Alexander Murray LL.B Mr, Worthing, West Sussex
SMITH, Anthony John Campbell B.A. Mr, London
SO, Gregory Kam Leung (Solicitor of the Supreme Court of Alberta) Mr, Hong Kong
[illegible]

APPOINTMENTS

Group finance director of Abbey Life Group

■ ABBEY LIFE GROUP has made the following changes. Mr Stephen Maran becomes group finance director, and deputy chairman of Lloyds Bowmaker, of which he was managing director. He is succeeded by Mr Alan G. Glass, who was finance director of Lloyds Bowmaker. Mr David A. Baggaley becomes *deputy managing director and* finance director of Lloyds Bowmaker. He was finance director of Abbey Life. Mr David E.J. Quick, on secondment from Lloyds Bank as deputy managing director of Lloyds Bowmaker, will shortly be returning to the bank.

■ Dr Trevor Lawson has been promoted to research and development director of RENTOKIL in succession to Dr Peter Cornwell, who is retiring. Dr Lawson was general manager of the R&D division. Mr Colin Smith has been promoted to general manager of the project development unit.

■ Mr Peter Relph has been appointed assistant director of INDEPENDENT ENGINEERING SERVICES.

■ Mr Tony Derry has been appointed chairman of JAMES BURROUGH DISTILLERS, spirits subsidiary of Whitbread and Co. He was managing director and is succeeded by the deputy managing director Mr Andrew Dewar-Durie from March 1. Mr Norman Burrough retires as chairman on February 28. Mr Derry also becomes chairman of Whitbread North America and will join the executive committee of Whitbread and Co., also from March 1.

■ SUTCLIFFE CATERING GROUP, part of the P&O Group, has appointed Mr J.D. Stirling Gallacher, group managing director, additionally as chairman. He was deputy chairman and succeeds Mr Howard Phelps, who will remain a director and be responsible for the company at P&O main board.

■ Mr Brian J. Carlos has been appointed financial controller of A.J. WORTHINGTON (HOLDINGS) and its subsidiaries. He also becomes a director of A.J. Worthington & Co (Leek).

■ CATER ALLEN JERSEY has made the following appointments from February 1: Miss Penny Starling as a director of Cater Allen Investment Management (C.I.) - she remains group company secretary; and Mr Peter Langton as a director of Cater Allen Financial Services (Jersey), and Cater Allen Trust Company (Jersey).

■ Mr Nigel Olsen, recently a director of 3i, has joined SMITH NEW COURT as a non-executive director and chairman of its audit committee.

■ WARTSILA SECURITY, Finland, has appointed Mr Conrad Sandler as chief executive of its UK holding company Wartsila Security.

ALLIED IRISH BANKS UK has appointed Mr Laurence Carr *(above)* as managing director of Allied Commercial Finance, the group's invoice discounting operation to be launched in April. He was general manager of Bank of Ireland's UK receivables finance company BI Commercial Finance.

■ Mr Stephen Smith has been appointed a director of FREEMANS, and managing director of buying subsidiary Texplant Corporation. Freemans is the home shopping division of Sears. He joins from Grattan, where he was merchandise director.

■ Mr Christopher Hawkings has been appointed deputy chairman of PHILLIPS, with overall responsibility for the valuation department and business development. He was managing director, and is *succeeded by* Mr Roger Hollest who was responsible for UK branches. Both appointments are from March 1.

■ Mr Gareth Clark has been elected executive chairman of SOUTHNEWS. He was group finance director and replaces Mr Richard Winfrey who remains a non-executive director. Mr Paul Comyn has been appointed group finance director. He was financial controller and retains the post of company secretary.

■ Mr Kaichiro Okawa has been appointed managing director of Kyowa Finance International, UK securities subsidiary of THE KYOWA BANK. He was deputy managing director, and succeeds Mr Takeshi Masutani who returns to Tokyo to a head office appointment. Mr Hideo Yoda becomes deputy managing director. He was deputy general manager in Tokyo.

■ SUN ALLIANCE INSURANCE GROUP has appointed Mr Peter Bartlett as group regional manager, Sun Alliance International, Birmingham. He succeeds Mr Tony Cupper, who moves to Sun Alliance Management Services as assistant general manager.

■ FOREIGN & COLONIAL MANAGEMENT has appointed Mr R.T. Watson as managing director of Foreign & Colonial Pensions Management. Miss D.J. Copp becomes marketing manager.

■ BROOKLANDS AEROSPACE GROUP has appointed Mr T.H. Kerr to the board with responsibility for the aerotechnology subsidiary dealing with the development of the Optica, Scoutmaster, and Fieldmaster aircraft, and the Jindivik remotely piloted vehicle.

■ THE ACER GROUP has appointed Mr Eric Bridgen as group managing director. He was chief executive at International Military Services.

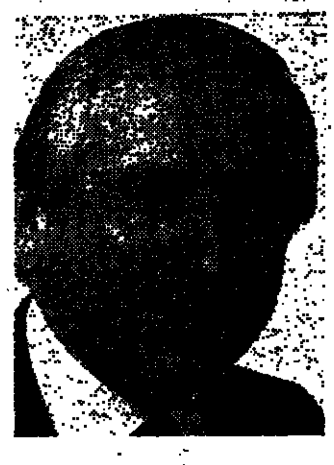
■ BRYANSTON INSURANCE CO has appointed Mr John J. Hobbs to the board. He was with National Vulcan Engineering Insurance Group.

■ Mr Terry James has been appointed commercial director of ADAMSON MODULAR SYSTEMS, Manchester, part of Tiphook. He was technical director of Tiphook Container Rental.

JOHN LAING has appointed Mr John Mason *(above)* as group purchasing director, in adddition to his duties as purchasing director for John Laing Construction.

■ CARRIER HOLDINGS has appointed Mr Michael Harvey as managing director of Carrier Service; and Mr D. Paul Smith as managing director of Carrier FES.

■ Mr Tony MacNeary has been appointed a director of COUNTY NATWEST SECURITIES incorporating Wood Mackenzie & Co. He will be senior food retailing analyst for County NatWest WoodMac. He was vice president, retail consulting group, Information Resources Inc., Chicago.



Dr Bryan C. Lindley *(above)* has been appointed the first chief executive of the NATIONAL ADVANCED ROBOTICS RESEARCH CENTRE, and its operating company Advanced Robotics Research, based on Salford University campus. He was director of technology and planning, BICC Cables.

He was a main board director of Dorma, and chief executive of Dorma Door Controls.

ARTS

Elegant genius of the Funniest Woman in the World

Sandy Wilson celebrates the talent of Beatrice Lillie who died on Friday aged 94

At one point in *An Evening with Beatrice Lillie*, the show which brought her back to London in the 'fifties, she performed what was, we were told, the authentic Japanese Tea Ceremony. The lights went up to reveal her kneeling on the floor robed as a geisha, whereupon she proceeded to fiddle with cups, saucers, teapots and a dispirited chrysanthemum in a vase, uttering the while hieratic squeaks, murmurs and mews. Occasionally she extracted a knitting needle from her wig and scratched her back, or, when the mood took her, delivered a vicious thwack to a tiny gong. Several minutes later the lights faded on her, still at it, leaving the audience aching with uncontrollable laughter. Why? Because Beatrice Lillie was, without a doubt, the Funniest Woman in the World.

She was a Canadian, but she made her name in London during the First World War, and in the mid 'twenties crossed the Atlantic, along with Jack Buchanan and Gertrude Lawrence, to appear in Charlot's Revue on Broadway, where the three of them became the toast of the town. She spent most of the 'thirties in the States, but on the outbreak of World War Two returned to England, which she always considered her true home.

When the West End theatres reopened in the winter of 1939, I saw her for the first time, in a revue called *All Clear* in which she co-starred with Bobbie Howes and sang two numbers written for her by Noël Coward. In the first, "Weary of It All," she was a jaded cabaret star: in between verses her dresser appeared bearing jewellery cases from her admirers which Bea slammed, with mounting irritation, into her dressing-table drawer. The second was "I Went to a Marvellous Party," Coward's immortal lampoon of Riviera High Society: each time she said "*marvellous*" her voice rose an octave, reaching, in the final stanza, a strangulated shriek. Many others have performed the number since, but, as far as I am concerned, they needn't have bothered.

Throughout the War she entertained soldiers and civilians alike, and, on the opening night of a Cochran revue, *Big Top*, in Manchester she received news that her only son, Robert Peel, was missing at sea. Worried and concerned, the company waited – until a message appeared on the board: "Come on, darlings, let's wow them in Manchester" – and they did. In that show, I seem to remember, she and Fred Emney appeared in resplendent tartan, as the Macbeths, and she also sang, with passionate intensity, a ballad entitled "Wind Round My Heart."

At the War's end she returned to New York and I did not see her again until *An Evening with Beatrice Lillie*, a kind of retrospective composed of the best of her old songs and sketches and some new material such as the aforementioned Tea Ceremony. I went twice and a friend of mine went a third time to the Golders Green Hippodrome, when the show was on tour. During one sketch, in which she portrayed a renegade maidservant who gets up to some high jinks during her mistress's absence, Miss Lillie, alone on the stage, would recite a nursery rhyme to herself about Three Little Kittens who Lost Their Mittens. This particular evening she chose to become obsessed by these kittens and, to the bemusement of the audience, rambled on for some minutes about their misdemeanours. Finally, "I know!" she cried, "I'll buy a cricket bat, studded with nails, the kind of cricket bat that reaches round corners, and I'll *get* youse kittens!" – and proceeded with the sketch.

Beatrice Lillie in *But It's All The Same* in 1940

It did indeed seem at times as if she lived in a world of her own, a world from which she looked out with faint disdain at us, her audience, as if to suggest that, whether we were there or not, she would carry on clowning. She also had a certain disdain for her scripts, as Noël Coward discovered when he directed her in a tepid musical version of *Blithe Spirit*.

"She is as much like Madame Arcati," he raged to his diary, "as I am like Queen Victoria"; the show opened in New York to rave notices for Miss Lillie and ran a year. Coward refused to cast her in the London production, and it closed in a matter of weeks.

She did make a handful of films, but her particular genius did not transfer too well to celluloid. In a Bing Crosby vehicle, *Doctor Rhythm*, she performed her "Two Dozen Double Damask Dinner Napkins," and in Clive Brook's production of *On Approval* she had a few surreal moments in a dream sequence. In the 'sixties she supported Julie Andrews in a top heavy 1920s extravaganza, *Thoroughly Modern Millie*. In the opening sequence, as the villainous proprietress of a girls' hostel, she trundles her latest kidnap victim along a corridor in a laundry basket: only her feet appear, shod in high button boots, but it's the funniest moment in the film. Later Miss Andrews was signed to play Gertrude Lawrence in *Star!* Noël Coward suggested that he be played by Dan Massey. When the producers approached Miss Lillie for a similar suggestion, she replied blithely "Me of course!" Her motive is unknown, but, as a result, Beatrice Lillie never appears in the film, and it was, in any case, a disaster.

The idea that anyone *could* portray Beatrice Lillie is, of course, ludicrous, although I dare say, now that she is dead, someone will try. We do have a new breed of comediennes, but most of them appear to me to be prodigal, untidy and derivative. Bea Lillie was, above all, an original, and, even at her most manic, never lost her elegance, and, when garbed in a Victor Stiebel gown with the famous pillbox perched on her Eton crop, she was the epitome of chic. She also knew, to a hair's breadth, the value of economy. I shall always remember her, at the end of her *Evening*, standing in front of the curtain, quite still, looking down at her pianists, Eadie and Rack, as they played one of Noël Coward's most wistful melodies, "The Party's Over Now."

Well, for those of us whom she has left behind, the Party is well and truly Over; but I like to think that somewhere, for Bea and her friends, it is still raging on.

Sandy Wilson's musical comedies include The Boy Friend, The Buccaneer, Valmouth, and Divorce Me, Darling!

Alastair Muir

Krishna Jati in Tara Arts' *Government Inspector*

Ala Afsur

TARA ARTS

The realisation that Tara Arts, the professional Asian theatre company, is staging an Anglo-Indian Raj-oriented version of Gogol's *Government Inspector* leads one to expect gentle comedy *à la* James Ivory. But Anuradha Kapur's production offers a stylised fusion of elements from east and west, beginning with an exhilarating introduction to the little town "east of east" missed by every ordnance map. Their faces traditionally painted, the storyteller and townspeople – bullying mayor, ineffectual teacher, corrupt police chief, cowed shopkeepers – burst into a leaping, bounding, clapping dance. The subsequent mixture of – and quotation from – cultural sources as diverse as Shakespeare, Kipling and Tennyson would have pleased another east-west observer, E.M. Forster. Here is connecting with a vengeance.

This is post-Independence India, but either the news has not reached the village or the locals prefer to ignore it. "Blighty is the object of my ambition," sighs the mayor's wife.

To this recognisably Gogolian collection of self-seekers and sycophants comes Peter Singh Undarzi, a well-spoken young rake temporarily out of funds, who eagerly accepts the role of Government Inspector from Blighty the nervous villagers mistakenly assign him. Soon he is reminiscing about studying PPE ("People, Power, Entertainment") at "Oxbridge", and waxing lyrical over London's socio-politico-cultural whirl that takes in "Common House", the "Old Victory National Theatre", the Family Royal and moving "round and round in artistic circles on Hampstead Heath."

Much of the comedy has a mad inconsequential touch. The main cavil with the new treatment of this unattributed standard Indian version of the play at the hands of Ms Kapur, from the National School of Drama, New Delhi, is that it seems shy of going too deep. The passionate monologue of boredom and frustration for the mayor's daughter, strongly done by Yasmin Sidhwar, is undercut by the narrator turning to us with "Chekhov – *Three Sisters* – Masha . . . sort of." And there is no sense of real venality, real ruthlessness, in the general bribery, coercion and nepotism.

Yogesh Bhatt's cumulative flashing-eyed passion as the young trickster hints at a cutting satirical edge. Ravinder S. Gill's stylish headmaster stands out; and the wistfully simple message sent by the anglicised Shah Shuja-ul-Mulk and his friend, to "*anyone* you meet in the streets of Blighty . . . that in the small town east of east there lives a man called Chaa 'n' Milk and his good friend Shuga 'n' Milk," movingly touches a chord in that erratic, fond, utterly improbable cultural encounter that lasted two centuries and is still miraculously unembittered.

Opening this week at the Commonwealth Institute, the production tours throughout February and March. Venues include Crawley, Aldershot, Newcastle, Sheffield and Bolton.

Martin Hoyle

ARCHITECTURE

Factory with a touch of class

Good architecture needs strong patronage – maybe, even a client prepared to interfere a bit. Patronage, and the status a successful commission brings the client, has become more appealing in recent years. That has brought some able smaller architectural practices within touching distance of major commissions and, who knows, perhaps giving some of the visually illiterate large commercial practices pause for thought.

One practice with a consistently strong reputation, and a steady rise in its workload as a reward, is Michael Hopkins and Partners. A client/architect relationship between Hopkins and David Mellor, silversmith and cutler, began with Hopkins' appointment as architect for the Victoria and Albert Museum.

Mellor, then chairman of the Building Committee at the V&A, thought long and hard for a strong architectural appointment. Objective achieved, the picture looks less happy. The V&A is seemingly overwhelmed by its backlog of maintenance and has little time and less money for anything architecturally substantial. Meanwhile, Mellor has been replaced on the committee by the chairman of the Wimpey Group – whose architectural commitment is decidedly less overt.

However, the partnership forged between Hopkins and Mellor has led to two buildings, one finished, one under way, with the possibility of a third. The completed building is a factory for David Mellor's cutlery business in rural Derbyshire, while that under construction is at Butler's Wharf, by Tower Bridge, where Mellor will combine administration and showrooms for his products with a two-floor apartment above. The third idea is for a small private house on the same site as the factory.

Mellor has found an architect who, in his words, is a masterly planner and seizes a concept with immediacy and a sure touch. Hopkins has a client who wants to be involved every step of the way, whose workforce can actually help to manufacture the building, and who has strong design notions of his own. The result is a remarkable building.

To begin with, it is round. Since the days of Martello towers, engine houses, windmills and oast houses, round buildings have been somewhat out of vogue. This building is round because it stands on the foundations of a gasometer and so it seemed appropriate. It is an expensive way to build; the circumference had to be divided into 24 segments, which meant construction had to be 100 per cent accurate. The bonus is that a round building offers an opportunity for making a stunning roof – this factory is really all roof.

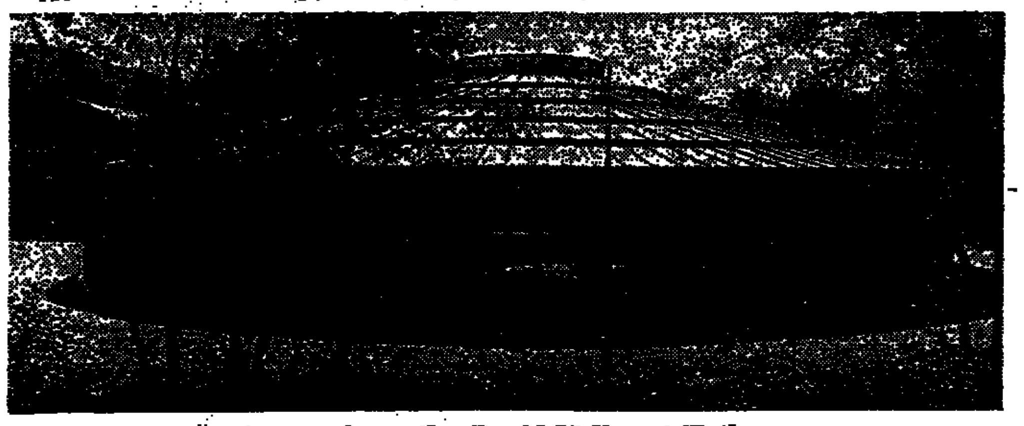
The principle is that of the bicycle-wheel; there is a hub, which in this case is a glazed lantern, and then concentric metal purlins, rings on to which the complex roof structure, consisting of plywood boxes with an outer skin of lead, is hooked. The key structural element is a massive external tie-rod which effectively clamps the whole open umbrella shape into place. Take it away, and the umbrella would be flat. The advantage of it all is that the interior is entirely clear of supports; the work-benches, assembly areas and amenities can be sited wherever they are wanted.

In addition, an existing stone building on site is being converted into the development workshop and office. The junction between roof and wall is made by a slice of glazing running around the building. There are also simple glazed doors at the four compass points, making it a very light building. The perimeter wall, by edict of the Peak Park planners but a satisfactory solution for everybody, is of load-bearing, rough-faced York stone.

It is in matters of detail – the concrete, the plywood roofing system, the metal hooks – that Mellor intervened, designing and making items for insertion in the building. He is doing the same for the Butler's Wharf development; birch ply shuttering, from Finland, and lead panels are his choice. Asked if Hopkins minds this degree of interference, Mellor answers that it relieves the office of much tedious detail. The result is, in his view, something more "hand made."

The charm of the Mellor factory is in the materials, ingenious form and landscape setting. The immediate surroundings consist of the original woody and overgrown site, thinned and re-planted woodland, and beyond the village of Hathersage extends the breath-taking Derbyshire landscape, tough and grand enough to absorb almost anything.

Gillian Darley



Michael Hopkins' factory for cutler David Mellor at Hathersage

Boulez

BARBICAN HALL

The final concert in the BBC Symphony Orchestra's five-day Boulez festival began with one of the most wonderful of all his works – *Eclat/Multiples*. It seems to sum up everything that keeps alive the extraordinary fascination of this composer's music: an idea that takes one form (*Eclat*, 1965) and then grows into another and longer (the *Multiples* addition, 1970) – and at some future date may well, Boulez being Boulez, take still another; a musical act of exquisite sensual beauty that the composer has intentionally sealed off from all possibilities of "meaning" and *Affekt*, simultaneously captivating the listener and remaining outside his grasp.

The experience of *Eclat/Multiples* unfolds by setting up the scintillating brilliance of the percussion group, then "facing" it with the wind-string orchestra, and gradually evolving images which mirror others earlier, blur, and briefly come together: at mid-point there is a fleeting sense of melodic unification, before the ideas start separating out again. The listener catches glimpses of the weightless, shining sound-world in which this process occurs – high up (the place gives the magical illusion of being scored only in treble registers) and largely out of reach.

The ideas and styles of art out which *Eclat/Multiples* was germinated are currently out of fashion: for the moment art must be palatable, marketable, "easy". The extraordinary thing about this work is the beauty of its sound, which surely transcends all notions and traits of fashion and period.

The performance, under Boulez himself, captured the essential lightness of touch and serenity of tone-production more successfully than I have heard before. The concert also included *Messagesquisse* for seven cellos, "*cummings ist der dichter*..." (with the BBC Singers), and the extraordinarily violent, poetic, and – again – sensually beautiful 1970s orchestration of four of the 1945 piano *Notations*. For this Boulez festival, and its triumphant closing episode, the BBC deserve the loudest cheers.

Max Loppert

"The Royal Ellington Concert"

The Royal Ellington Concert at the Festival Hall in London tonight is a benefit in aid of the Courtauld Institute of Art Fund and will be attended by the Princess Royal.

The concert, made up exclusively of Duke Ellington compositions, will feature the world public premiere of *The Queen's Suite*, written by Ellington for the Queen in 1958. Only one copy of the Ellington orchestra's recording was made and was presented to the Queen. Ellington never played the work in its entirety again. Not until after his death in 1974 was the recording issued and it is from this source that American clarinettist/saxophonist/arranger Bob Wilber, who will be presenting the concert and leading a 16-piece band has been able to transcribe the music.

Among musicians taking part are Tony Coe, Antti Sarpila, Mark Shane, Alan Cohen, Len Skeat and Joanne Horton.

Brodsky Quartet

QUEEN ELIZABETH HALL

One of the Brodsky Quartet tells a splendid story about how the group wanted to play all the Shostakovich quartets in their college days and ended up trying to write out the parts from records, because the printed music was impossible to find. Since then – fortunately – they have been able to acquire the scores.

This recital was the first of the five in which they will be playing all the Shostakovich quartets in the retrospective of the composer's work divided between the South Bank and the Barbican. Unlike their symphonic counterparts, they are offering the works in numerical order and, to judge from this first offering, in performances less wilful than some of those encountered in the symphony cycle.

The Brodsky's style is disciplined and finely judged. At all times their playing is graced with a tonal quality that is lean and beautiful, encompassing many subtle nuances of expression. It is also faithful to the text, so that any listener who follows the score (so far as one can in the QEH with all the lights down) will be in no doubt that what he is hearing is a just translation of the composer's intentions.

For much of the first three quartets, which made up this programme, that was enough. There was a lot of exemplary interpretative work to be admired here, especially in withdrawn, lyrical movements; and where doubts do arise, they are not through anything wrongly or badly done, so much as a suspicion that the performances may be just falling short of the music's full stature, either in intensity, concentration or sheer range.

Though as the last pages of the Third Quartet melted away into playing of the utmost sweetness and fragility, the feeling at the end was of understandable contentment. The other recitals are all scheduled within the next two weeks.

Richard Fairman

Josef Protschka

WIGMORE HALL

Josef Protschka, Prague-born and raised in Germany, has won himself an enviable European reputation as a Lieder tenor. Word of it reached London in time for his first recital – devoted to *Die schöne Müllerin*, and sold out well in advance.

His is a vigorous, outgoing platform personality, shaped by obvious musicianly intelligence, a distinct approach to the cycle's central character, and an ability to "play" each phase of the emotional unfolding with a just sense of verbal and dramatic weight. The interpretation abounded in fresh, vivid touches – the "reported speech" of the mill-girl herself, in "Tränenregen" conjured up a shade of voice and a cast of face poised between pertness and commonness, and brilliantly evocative. The tenor has "lived" this cycle: there was nothing indecisive or genteel about its projection, and no flagging in his determination to keep it going from first note to last.

But on Wednesday Mr Protschka's intentions seemed to me consistently undermined by the uneven quality of his singing. There was hardly a passage in which one note was not ill-tuned: the simple, even sequences of "Des Müllers Blumen" were irritatingly flawed, and the upper F sharp in "Die liebe Farbe" was hit from below each time it arrived. Passages of decoration were of bull-at-a-gate quality.

Complaints of this sort are not mere canary-fancier's nit-picking, since the Schubertian tragic vision is revealed as much in the smoothness and elegance of the singing line as in the vigour of declamation. Mr Protschka is good enough to make one wish he were much better. The pianist, Helmut Dietsch, was sensitive, intelligent, but a little too reticent, and apt to stumble in passages of fast repeated notes.

Max Loppert

ARTS GUIDE

January 20-26

MUSIC

London

Music from the Flames, Vladimir Ashkenazy and the Royal Philharmonic continue their Shostakovich series with the Symphony No.2 (October), Piano Concerto No.1 and Symphony No.13 (Sun); Symphonies Nos. 9 and 5 (Tues), Festival Hall (928 8800)

London Symphony Orchestra with Barry Douglas (piano), Dvořák, Liszt, Barbican (Thur) (638 8891)

Paris

Gerhard Oppitz, piano. Brahms. Salle Gaveau (Mon) (45.63.20.30).

René Jacobs, counter-tenor and **Ton Koopman**, harpsichord. Rossi, Frescobaldi, Zipoli (Tue); *Cifra, Valentini, Monteverdi* (Wed). Both concerts at 6.30pm at the Théâtre de la Ville (42.74.22.77).

Orchestre de Paris conducted by Daniel Barenboim with Hildegard Behrens, soprano, Orchestre de Paris choir. Beethoven's Missa Solemnis. Salle Pleyel (Thur) (45.63.07.96).

Olivier Gardon, piano. Liszt, Schumann, Berg, Prokofiev. Théâtre des Champs Elysées (Thur) (47.20.36.37).

Brussels

La Toccat'Anne vocal and instrumental ensemble conducted by Michel Keustermans with Greta de Reyghere (soprano) and other soloists perform Mozart's Litanies, Kyrie K347 and other choral works (Thurs). Eglise du College Saint Michel (512 3752).

Vienna

Chamber Orchestra of Europe, conducted by Andras Schiff, Bach, Konzerthaus (Mon).

Wiener Schubert Trio, Vanhal, Beethoven, Dvořák, Musikverein (Tues).

Wiener Symphoniker, conducted by Christoph Eschenbach, with Oleg Kagan (violin), Natalia Gutman (Cello), Tzimon Barto (piano), Webern, Beethoven, Schumann, Konzerthaus, (Wed, Thurs).

Munich

Munich Philharmonic Orchestra and pianist Daniel Barenboim, conducted by Sergiu Celibidache, Beethoven, Philharmonie im Gasteig.

Cologne

The Jazz Society. Monty Alexander, Dee Daniels, Jeff Hamilton, Robert Thomas, Othello Molineaux and the WDR Big Band, conducted by Jerry van Rooyen, John Clayton. Philharmonie (Wed).

Berlin

Philharmonia Orchestra London conducted by Guiseppe Sinopoli. Strauss, Mahler. Philharmonie (Tues).

Rome

Giuseppe Patano conducting Franck's symphonic poem Le Chasseur Maudit, Lalo's Symphonie Espagnole (with violinist Uto Ughi) and Sibelius's Symphony No.1 in E minor, Auditorium in Via della Conciliazione (Mon and Tues) (654 1044).

British Month (organised jointly by the Accademia Filarmonica and the British Council) continues with the Swingle Singers performing a mixed bag which includes Bach, Henry VIII, Rossini, Granados, Gershwin, Cole Porter, Lennon-McCartney and Debussy, Teatro Olimpico (Wed) (393304).

Amsterdam

Josef Suk (violin) with the Royal Concertgebouw Orchestra under Claus Peter Flor, Mendelssohn, Martinu, Tchaikovsky, Concertgebouw (Wed, Thur).

Orlando Quartet, with George Pietersen (clarinet). Haydn, Kenris, Mozart, Recital Hall (Thu) (718 345).

***Academia d'Harmonia*, with a** programme of 18th century Spanish chamber music by Pla, Ximenez, Castell and Sor, Oliver Recital Hall (Wed) (31 45 44).

Rotterdam

Quartetto Beethoven di Roma, Beethoven, Mahler, Faure, Recital Hall (Tue) (413 2490).

Robert Holl conducting the Netherlands Chamber Choir, vocalists and soloists, Schubert, Recital Hall (Wed) (413 2490).

New York

New York Philharmonic conducted by Zubin Mehta, with Julia Varady (soprano), Paine, Mozart, Beethoven, Avery Fisher Hall, Lincoln Center (Tue) (799 9595).

Izhak Perlman (violin) with the New York Philharmonic Orchestra conducted by Zubin Mehta, Sibelius programme, Avery Fisher Hall, Lincoln Center (Thur) (799 9595).

Cleveland Orchestra conducted by Christoph von Dohnanyi, with Daniel Majeske (violin), Robert Vernon (viola), Stephen Geber ('cello), Delius, Tippett, Beethoven, Carnegie Hall (Thur) (247 7800).

Chicago

Orchestre Symphonique de Montreal conducted by Charles Dutoit, with Radu Lupu (piano), Beethoven, Berlioz, Orchestra Hall (Mon) (435 6666)

Chicago Symphony Orchestra conducted by Guenter Wand, Schubert, Brahms, Orchestra Hall (Tue) (435 6666)

Cho-Liang Lin (violin) with André-Michel Schub (piano), Stravinsky, Grieg, R. Strauss, Orchestra Hall (Wed) (435 6666)

Tokyo

Opera Gala Concert. Tokyo Philharmonic Orchestra conducted by Roberto Paternoster, with Peter Dvorsky, Renato Bruson, Lucia Aliberti, Suntory Hall (Mon) (505 1001)

Vyacheslav Polozov (tenor) with David Leighton (piano), Puccini, Mussorgsky, Suntory Hall (Tues) (406 6237)

Japan Philharmonic Orchestra, conducted by Akeo Watanabe, Brahms, Tokyo Bunka Kaikan (Wed) (234 5911)

Tokyo Metropolitan Symphony Orchestra conducted by Hiroshi Wakasugi, Mahler, Suntory Hall (Thurs) (485 6115)

FINANCIAL TIMES

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Debt and Mr Bush

DEBT WILL be among the more visible threads running through the presidency of Mr George Bush. Everywhere he looks, he will find too much of it: in the balance sheets of both the Federal Government and the American private sector, in the external liabilities of the US as a whole and, last but not least, in the Third World.

Given the ravaged state of the countries to the south and their political importance to the US, it is not surprising that Mr Bush is already committed to a review of US strategy towards Third World debt. With even hitherto well-behaved debtors such as Venezuela and Colombia showing that they have had enough of playing by the rules for no return, such a review is not before time.

When the "debt crisis" burst open in August 1982, it was mainly viewed as a liquidity problem of importance to the world's financial system. Today, however, the crisis is more properly regarded as a long-term disease of economic development.

Once upon a time the combination of inward-looking trade policies, currency overvaluation and large fiscal deficits characteristic of many developing countries was consistent with adequate economic development. But this ceased to be the case in the adverse economic environment of the 1980s. It should never be forgotten, however, that responsibility for the brutality with which this lesson was delivered rests with the vagaries of policy-making in major developed countries throughout the 1970s and 1980s.

Banks' strength

Notwithstanding the US share in the responsibility, Mr Bush might feel justified in continuing with an overwhelmingly private solution to the problem. With their greatly strengthened balance sheets the banks are in a position to accommodate various forms of voluntary debt reduction. But, as is shown in a discussion of the problem in the December issue of Morgan Guaranty's World Financial Markets, even a reduction of 30 per cent in the long-term debt of the highly indebted developing countries to commercial banks would reduce interest charges by only $7bn a year.

Further policy reform in the indebted countries is essential. Morgan Guaranty estimates the assets held abroad by Mexican citizens at no less than $84bn by the end of 1987 and those of Argentines at $46bn. Such figures suggest that, if policy reform could be both radical and credible, the potential for improved economic performance is very large. But is policy change on the required scale feasible for countries, many of which are (unlike Chile) fragile democracies? Official assistance will be required to help bring it about.

The principal interest of the developed countries is that the indebted countries should possess efficient market economies and stable democratic polities. It is the very interest that drove US involvement in Western Europe and Japan after the war and in South Korea and Taiwan in the 1950s and 1960s.

Punishing the worthy

The danger under the *laissez-faire* policy towards debt is that the opposite will happen, with the largest reductions in debt going, willy-nilly, to those with the most incompetent economics and chaotic politics. Meanwhile, those making a serious effort to perform, like Colombia or Mexico, will be punished for their efforts, simply because the creditors have greater hope of getting their money back.

The aim of public involvement should be to alter these incentives, by ensuring that the greatest rewards go to the indebted countries that are making the greatest effort to help themselves. Perhaps the best way to do this would be to guarantee part of the interest payments on long-term bonds offered in place of existing debt. In so doing, the developed countries would obtain the incidental benefit of splitting a nascent debtor cartel.

Debt is one of Mr Bush's principal headaches, but it also offers him one of his biggest opportunities. If he can also produce the policies required for sustained world economic growth, an imaginative approach to Third World indebtedness may carry a growing number of developing countries towards economic progress and political stability. Mr Bush should remember that a successful perestroika is far more feasible in a country like Mexico than in the Soviet Union, that it may well be as vital for the US, and, above all, that he is in a much better position to make it happen.

Demonstration in Prague

THE VIOLENT reaction of the Government in Prague to the desire of young people to commemorate the self-immolation of Jan Palach 20 years ago, while in Poland and Hungary more serious challenges to the totalitarian regime are taken calmly as a basis for discussion, can be understood only in the context of the Czechs' different historical experience.

On the surface, the brutal suppression of the demonstrations seems difficult to square with the attitude of the Czech Communist rulers of 1969, operating under the control of a mighty army sent in by Brezhnev. At that time, the President and other leaders all sent condolences to the family. Their example was followed by the entire establishment as well as thousands of individuals. The decision to bury Jan Palach at the Slavin cemetery reserved for national heroes was cancelled at the last minute, but he was given a national funeral with the Tyn bells tolling and all public transport ordered to halt. It was a solemn demonstration of grief such as the country had not expressed since the death of its founder president, Thomas Masaryk, in 1937.

Form of redemption

The words repeated again and again on that occasion were "Jan Palach gave his life for us – we must live up to his sacrifice." Such emotion, triggered by the sacrificial death of the young man, needs to be seen in the context of history; the Czechs have not taken up arms in defence of their freedom on a large scale since the religious wars started by the burning at the stake in 1415 of Jan Huss, a political leader of the opposition against the Roman Catholic Church.

More recent history was marked by President Benes's refusal in 1938 to let the country fight Hitler alone after the Munich agreement and, almost immediately preceding Palach's death, a similar reluctance by the Dubcek leadership to fight a hopeless war against the Soviet army when it entered the country in August 1968. The unprecedented mass emotion which seized the placid Czechs 20 years ago can most plausibly be explained as an acceptance of Palach's human sacrifice as a form of redemption of the guilt feelings of a nation which has, twice in its recent history, preferred humiliation and survival to heroism and death.

Thus, the present Prague demonstrations can perhaps be regarded not so much as a belated protest against the Soviet invasion of 1968 as an attempt to stir the nation from its political lethargy. Repeatedly disappointed by their allies and fearing that Mr Gorbachev's glasnost and perestroika might fail as Mr Dubcek's experiment did, the inventive, industrious and peace-loving Czechs prefer to cultivate their gardens instead of pioneering great reforms or taking sides in Kremlin battles. Yet, because of its industrial skills and democratic past, Czechoslovakia would probably find it easier than any other Communist country to make perestroika work.

Embracing reform

The young people demonstrating in Prague did not live through the disappointments of the older generation. Not having experienced Stalin's terror, they are less fearful. They are able to embrace Mr Gorbachev's reforms as a way of restoring Czechoslovakia as the cultural heart of Europe and of securing a better life for every one of them. Such an alliance of Czech youth with the new Soviet leadership is probably seen by the present Government in Prague as a threat to its precarious hold on old-style central rule.

Mr George Shultz, the retiring US Secretary of State, and Sir Geoffrey Howe, the UK Foreign Secretary, were right to give moral support to the young people of Prague and to hint that the West will not remain indifferent to continued violation of the human rights agreement on which the ink has not dried.

Charles Leadbeater explores the pressures for higher UK pay settlements

A struggle to turn down the heat

Personnel directors preparing to negotiate pay increases in next few months are probably starting to feel edgy.

Pay settlements are showing signs of rising from about 6 per cent in the middle of last year to an average of 7 per cent, in the wake of the rise in inflation to 6.8 per cent. By March, inflation could have risen to more than 7 per cent, and pay deals concluded this month will start pushing average earnings figures for the early spring to more than 9 per cent.

Employees who have grown used to rising real earnings during a period of stable inflation could become increasingly agitated. Companies are likely to face more intense pressure for higher pay than for several years.

A recent survey by the Confederation of British Industry found that 42 per cent of companies thought the cost of living would be a very important upward pressure this year, compared with 22 per cent last year.

Higher inflation may make life more uncomfortable for companies. But as yet it hardly marks an upsurge in disruptive pay pressure. Mr Rod Thomas, the CBI's director of employment affairs, says most companies which attended the confederation's annual pay and performance briefing last autumn expected higher inflation to be no more than a temporary blip.

The personnel director of one the country's largest manufacturers, which is due to start negotiations in March, adds this warning: "If higher pay does feed through into a second round of more inflation, then things could really get out of hand."

The next few months will be a vital test of whether the Government's trade union reforms, and companies' more assertive, innovative approaches to employee relations, have eradicated one of the British labour market's key characteristics: the tendency in real terms of pay to go up much faster in periods of economic growth than it falls in periods of recession.

There is no doubt the labour market, industrial relations and approaches to pay have changed in the last few years. The question is: have they changed for the better?

The rise in inflation could not have come at a worse time of year. Although the sequential "pay-round" of the 1970s has largely disintegrated, with pay settlements spread throughout the year, the next three months are particularly important. A third of all pay reviews are conducted in January or April.

The rise in the cost of living magnifies the impact of factors which have been pushing up pay for two years.

Increases in productivity and profitability, combined with stable inflation, have fed workers' expectations of steady income growth. It is as if annual earnings growth of 7.5 per cent a year has become a fixed point in the economy around which economic policy, company strategies and workers' pay expectations are formed.

Mr Alastair Hatchett, editor of Incomes Data Services bi-weekly pay report, says: "Although companies may plead impending poverty in 1988-89, they will be declaring profit figures based on strong trading performance in 1987-88. That is what workers will concentrate on."

Strong output growth in 1988 has pushed up overtime working in manufacturing, and with it earnings. But high overtime is also a strong signal to employees that their companies need them, and their employment prospects are secure. Overtime is at its highest level since the 1950s; 15.46m overtime hours were worked in the first nine months of 1988, compared with 12.6m in 1987. About 41 per cent of the manufacturing workforce worked overtime last year, compared with 26.6 in 1982.

Overtime has been fuelled not only by strong output growth but also by skill shortages. Companies are asking the skilled staff they have to work longer hours.

Skill shortages in themselves are a strong pressure on pay. CBI surveys have found that about a third of companies expect difficulties in recruiting and retaining staff to be a very important pressure this year, twice as high a proportion as in 1986-87.

The decline in the number of school leavers, and the gradual shift towards smaller but more skilled workforces, means that recruitment and retention of skilled workers will be an upward pressure on pay for some time.

The relatively affluent finance sector plays an important part in the competition for young people and skilled workers – and thus in the pay-setting process. The personnel directors of the clearing banks and building societies have become the barons of the labour market in the late 1980s, engaged in a continual competition to outbid one another with special allowances for staff in an area stretching from Cambridge to Southampton and Bristol. The next few months will see important pay settlements at three big banks, National Westminster, Lloyds and Midland.

Pay deals in the finance sector and in profitable manufacturing companies – with smaller, skilled, unionised workforces – have created inescapable pressures for public sector employers. Last year Mr Kenneth Baker, the Education Secretary, set a cash limit on teachers' pay of 5.1 per cent from April 1989, when inflation was running at 5 per cent. That means that the teachers may get an award which is 3 per cent below the April inflation rate.

The Armed Forces Review body will want increases attractive enough to put the forces in a strong position to recruit young people, and retain skilled signals staff who could get much more in the electronics and engineering industry. Nurses' pay is still a sensitive issue and the nurses' pay review body will have to start adjusting pay scales soon if the service is to recruit the young people it needs.

Despite all these pressures, the CBI is confident that the higher inflation rate will be shortlived and pay will be brought under control.

The decentralisation of collective

Many companies expect difficulties in recruiting and retaining staff to be an important pay pressure this year

bargaining in the 1980s, with companies breaking free from industry-wide agreements, has produced a much wider range of settlements. Companies are able to insist on increases below the going rate if they face difficulties in their product markets, says Mr Thomas. More decentralised bargaining should make it more difficult for pay momentum to build up.

Others argue, however, that the going rate has not disappeared but is merely taking a different form. Professor William Brown, of Cambridge University's Economics and Politics Faculty, believes companies are having to match pay rises granted by their competitors to ensure they can recruit, retain and motivate staff as well as competitors.

Thus a 7 per cent deal for Boots' manual workers agreed recently is the first in a season of pharmaceutical industry settlements which ends in July with Glaxo. Even if inflation has fallen by the summer, Glaxo will still be under pressure to concede 7 per cent because of the Boots deal.

This mix of decentralisation and drift has created a dangerous paradox, Mr Brown says: "If firms' pay rises are tending to chase those of other firms in their industry, at a time when the industrial employer organisations which might have imposed discipline are in continuing decline, it is hard to see what might contain Britain's endemic inflationary problems."

Mr Hatchett believes the finance sector may be as effective in spreading pay pressure nationally as Ford was in the 1970s. As he puts it: "Every town has banks, and next to them building societies. Finance sector pay pressure can affect every area in the economy."

The CBI is confident, however, that for companies' unit costs the effects of higher pay could be offset by continuing strong productivity gains, in large part produced by heavy investment in new technology over the last year.

Mr Thomas says: "At each presentation (to employers) in recent years we have told them it was unlikely productivity growth could be sustained, and each year they have proved us wrong."

None the less, there must be doubts over whether manufacturing productivity growth can be sustained. Some of the recent productivity gains have been due to strong output growth: productivity growth may slacken as economic growth falls.

Many manufacturing companies are already operating with smaller workforces, more flexible working practices and new technology. It will become more difficult to reap productivity gains through shedding labour and attacking demarcation lines. In future, improved training and line management will become more important, to allow companies to make better use of flexibility.

But perhaps as important as the quantifiable effect of inflation on unit costs is the threat to companies' plans for longer term restructuring. The stability bred by a period of low, stable inflation has been vital to allow companies to introduce sweeping changes in working practices, industrial relations and payment systems.

Long-term agreements to allow complex changes in production methods and working practices are setting the pace for change in manufacturing. It is easier for companies and unions to sign long-term pay agreements if inflation is fairly predictable. The uncertainty over inflation is likely to make unions increasingly wary of signing such deals. This could curtail the spread of long-term agreements, and make it more risky for companies to renew them, as unions will be pressing for inflation proofing. Companies would have to cede part of their control over pay to the vagaries of the inflation rate.

If long-term agreements are curtailed, the pace of change in the most innovative companies could slow; thus pressure for change in smaller companies could also ease.

Uncertainty over inflation could also set back companies' attempts to reform industrial relations and introduce more individualised, flexible payments systems. It will make collective pay negotiations more important to workers, and thus rebuild the importance of union membership as a defence of employees' standard of living.

Performance related pay systems are already being distorted by an accretion of special payments to recruit skilled staff, which are a measure of workers' scarcity value rather than their performance. The most significant moves towards regional pay have not come in the north (to link lower pay rates to higher unemployment) but in the south-east (with the spread and rise of special allowances).

Many companies need a period of stability to adjust their pay structures for different grades of staff. Moves towards harmonisation of blue- and white-collar terms and conditions; changes to job descriptions and responsibilities in the wake of new technology; the disruptive effect of *ad hoc* payments to attract key staff; the need to improve youth wages to attract more young people – these have all undermined the rationale of pay grading systems introduced in the 1970s.

But, instead of having a time of stability to sort out these problems, employers will be faced with further turbulence.

So, a period of higher, more volatile, inflation will not just affect companies' costs and competitiveness. It could seriously handicap employers who are attempting a longer term restructuring of employee relations in hopes of improving corporate performance.

Mr Thomas remains confident that pay bargaining has changed enough to allow companies to overcome pay pressures: "It will be another pressure, significant for a period, but it will blow itself out."

Mr Hatchett is more pessimistic, for he believes that, despite change in the forms of pay bargaining, the labour market has retained its unruly inflationary potential: "It will take something like a mini-recession to put a stop to this."

OBSERVER

Deep waters in Holland

■ Ever so gently, the Dutch are venturing back into what we know from the British experience is one of the most sensitive areas in politics: extending the country's shopping hours.

Along with the West Germans, the Dutch have the most restrictive shopping regime in Europe. It is also rather complex. Dutch stores can stay open for a total of 52 hours a week, about the same as in the Federal Republic. Yet they must close no later than 6 pm, except on the one officially designated "shopping night".

There are a few exemptions, known as "night shops". For the rest, however, the doors are shut early on Saturday afternoon: there is no Sunday trading and, because of the restrictions on hours, many shops do not re-open until around lunchtime on Monday.

Debate has raged for years over whether the law should be relaxed. A new bill has now been tabled in an effort to reach a compromise, but seems likely only to stoke the controversy.

Two Christian Democrat MPs are proposing that municipalities should be allowed to designate a second "shopping night", although the doors would have to be closed at another time to make up for it, since the 52-hour ceiling would remain. The governing Christian Democratic Party has been one of the main opponents of longer hours: the new bill is, in fact, an attempt to pre-empt more radical proposals.

"This is designed to be a bridge between the various proposals which have reached an impasse," says Haje Schartman, who is co-sponsoring the bill.

Already the Christian Small Business Association, NCOV, has castigated it as "superfluous". Besides NCOV, leading the opposition to the bill are groups representing small family shops and the trades unions. Their arguments vary from saying that longer business hours would disturb their social life to claiming that consumers would not buy enough to justify the extra labour and overhead costs. The Christian Democrats fear that the family would be undermined.

Proponents are large store chains, divorcee associations and consumer groups. They say that growing numbers of working couples, one-parent families and single and two-person households must be able to shop after work. The political betting is that the whole issue will prove too difficult and will be shelved until after the general election next year.

Tight market

■ The labour shortage on London's building sites is clearly genuine. Paul Willett of the Royal Institution of Chartered Surveyors says that someone knocked at the door of his East London house the other Saturday morning and asked him if he was any good with his hands. In fact he is, but he turned down the offer, which was to help the man on the local site as a part-time carpenter for £100 a day.

Out of purdah

■ All rules are made to be broken, especially by Nigel Lawson. At this time of the year the Chancellor of the Exchequer is supposed to be in purdah, preparing his next budget. Lawson went on the BBC World Service last Friday and deferred any hopes of further major tax cuts. On Wednesday he will address the Royal Institute of International Affairs

"It's the pop-up version."

(Chatham House) on Britain and the European Monetary System. He can hardly be undertaking that without having something of substance to say. Remember that some of Lawson's best speeches have been made to quasi-academic audiences, which he seems to take more seriously than (say) the Tory Party Conference or the House of Commons.

Fighting game

■ I watched Ireland play France on Saturday only on television, but nothing could have been a more effective reminder of how much better a game it is than the other football. Yet there was one incident that surely should have raised more eyebrows. At one stage in the first half about five players on either side were throwing punches at each other, almost as if in some medieval combat. Nobody seemed to mind. Afterwards the game became even better. It is not like that at Chelsea.

Day's new job

■ One of the main reasons why Sir Graham Day agreed to be chairman-designate of Cadbury Schweppes is that he had had just about enough of working in a nationalised industry where he was accountable to just about everyone: Parliament, the media and the Prime Minister. Another was that he was unlikely to become chairman of British Aerospace, where Professor Roland Smith remains in the saddle after taking over the Rover Group which Day once led. And a third reason was that Day wanted to be chairman of a biggish company without being chief executive as well.

According to close friends, a lot of companies were in the market for him, but Cadbury Schweppes was one of the very few to guess that he would like to do without the chief executive title. He wants some freedom. The arrangement was made over six months ago and Day became a non-executive director of Cadbury Schweppes last year.

For the confectionery and soft drinks group, Day brings his experience of North America. General Cinema, the US concern, holds a near 20 per cent in the company and bidding could become more active at any time. Day will be expected to help with the defence.

He will continue to give half his time to the Rover Group, but not indefinitely. At 55 he wanted a contract that has something more at the end of it than "Thank you and good-bye."

Inflation

■ An employment agency in Cannon Street, just across the road from the Financial Times, is advertising for an "Executive Tea Person". The pay is £7,000 a year.

The agricultural trading floor of the Chicago Board of Trade — Ashley Ashwood

Deborah Hargreaves reports on the FBI fraud investigation that has jolted Chicago's commodities markets

Fear and loathing in the futures pits

In a crush of brightly coloured trading jackets, wild hand signals and raucous voices, millions of dollars change hands every day in the world's largest commodities markets in Chicago.

But the Windy City's main futures exchanges are on the defensive as their long-established trading systems come under attack in a multi-million dollar fraud investigation by the Federal Bureau of Investigation.

Both the Chicago Board of Trade, which traded 143m contracts last year, and the Chicago Mercantile Exchange, which traded 78m contracts in 1988, have received writs requiring them to provide membership records and trading data for the last six years as part of an FBI inquiry that could rival the scope of Wall Street's insider trading scandal.

While the FBI has declined either to deny or confirm reports of the investigation, traders are describing an intricate tale of FBI undercover work in the city's futures markets.

Several established traders at the Chicago Board of Trade (CBOT) mysteriously disappeared on Tuesday night, cancelling their trading accounts and failing to show up in the futures pits for the rest of the week.

Floor traders believe these to have been FBI agents who were working undercover with hidden microphones to tape conversations in the crowded commodities trading arenas.

"I was quite friendly with the guy in the soybean pit," says Mr Bud Frazier, a long-established grains trader at Chicago brokerage, Balfour Maclaine. "Now all the traders who stood around him have been subpoenaed."

FBI agents are understood to have been working undercover for up to two years as traders at firms in the Board of Trade's maize and Treasury bond futures pits as well as the soya-beans arena. The inquiry at the Chicago Mercantile Exchange (CME) is known to involve traders in the exchange's yen and Swiss franc futures contracts.

The agents' trading accounts and seat prices on the exchange are thought to have come from money in a special FBI fund for undercover work. While some agents adapted well to their trading careers, others repeatedly lost money.

"We used to wonder why he came back every day after losing money," remarked one trader of the agent in the Swiss franc futures pit.

The affable agents ingratiated themselves with members of both exchanges, often meeting young traders after work and at lunchtime. They would lead the conversation round to a discussion of trading abuses. "But they didn't seem nosy," one trader commented.

Many of these traders have now been subpoenaed and are being asked to give evidence against trading abuses and fraudulent practices. So far, traders at the Board of Trade are aware of 24 subpoenas, but believe this could just be a start.

If convicted of cheating customers, traders could face charges ranging from conspiracy and violations of federal commodities law to charges under the powerful Racketeering Influenced and Corrupt Organisations Act (RICO), which has been used against Wall Street firms.

The FBI is understood to be hearing evidence from a range of traders and has subpoenaed both futures exchanges to provide trading documents dating back to 1983. These include a multitude of disciplinary and complaints files as well as background documents on exchange members and their financial holdings.

The investigation into malpractices on the trading floor is likely to lead into some firms' back-office operations where millions of dollars could be involved, according to some traders. The FBI is aiming for the top in asking floor traders to testify about policy at their trading and clearing firms.

Trading in Chicago's commodity markets is still executed by the time-honoured practice of open outcry. This involves each trader acting as his own auctioneer as he yells out his bids and offers in an arena with as many as 500 other jostling players. The shouting is backed up with a series of frenetic hand gesticulations and trades are jotted down in pencil on a trading card that is handed in at the end of the day.

The Wild West nature of the trading pits can be a breeding ground for abuse. "I think everyone is hard-pressed to keep things straight," says Mr Frazier, "but I believe that 99.5 per cent of the people in this business are honest."

Several recent cases of fraud have chipped away at the integrity the exchanges have so vociferously tried to preserve. But the current investigation is by far the most wide-reaching of any commodities inquiry launched in the US.

The trading abuses under investigation are reported to involve an array of malpractices. These include pre-arranging trades, profiting from tampering with customer orders and front-running – that is, trading before a customer order that is large enough to swing the price of a commodity.

Some traders are alleged to have used a technique called "bucketing" to defraud customers. This involves taking the opposite side of a customers' trade privately rather than offering it to open auction – a method by which the broker can profit by not always giving the customer the best price available.

Mistakes are inevitable in the often chaotic trading atmosphere at the exchanges, traders say, and clearing houses require traders to make good their own errors. This can tempt floor traders to cover the cost of their trading errors – and often make a profit on top – by manipulating customer accounts.

Mr Anton Valukas, the US attorney for northern Illinois, has repeated his commitment to tracking down commodity fraud and white-collar crime at Chicago's futures exchanges. Earlier this week, he charged 18 former employees of a Chicago commodity firm with racketeering.

Mr Valukas has claimed that fraud is widespread in Chicago's commodity markets. His assertions were repeated by a US district judge who called an elaborate trading scam for which he recently passed sentence, "the tip of the iceberg". The judge infuriated CBOT officials by calling the exchange a "cesspool" of corruption.

The current publicity over trading fraud in Chicago could not have come at a worse time for the city's exchanges. Both have successfully managed to deflect criticism levelled at their markets in the wake of 1987's stock market crash, and have so far avoided increased regulation of their strongly-defended free markets.

But the futures regulatory body, the Commodity Futures Trading Commission (CFTC), is due to be re-authorised by Congress this year, and widespread allegations of fraud in the futures markets would inevitably be used as a call for tougher oversight of the industry.

A spokesman for the CFTC declined to comment on the investigation reports. But he did say that if there proves to be any truth in the allegations, it would force the oversight committees to take a long, hard look at the markets.

Chicago's exchanges have been extremely wary of tighter regulation that would put up the cost of doing business in the city and force investors to look elsewhere.

The CFTC is widely seen as being less stringent in its regulation than the Securities and Exchange Commission (SEC) which oversees the equity markets. Much of the responsibility for oversight is left to the futures exchanges themselves, as self-regulatory bodies.

The two federal agencies have engaged in something of a turf war since the stock market crash and many critics of the CFTC have called for the SEC to extend its influence in the futures industry. Congress has also toyed with the idea of merging the agencies into one body – a suggestion that is bound to have another airing in re-authorisation hearings.

The exchanges themselves have been a lot more vigorous in pursuing fraud over the last two years, according to Mr Arthur Hahn, commodities lawyer at the Chicago firm of Katten, Muchin and Zavis. Both exchanges have a wide variety of recent abuses on their disciplinary books for which they have levied large fines.

Two years ago, the CME was forced to introduce special rules for so-called "dual" traders who trade both for themselves and for customers, after a barrage of customer complaints about trade executions in the exchange's Standard & Poor's 500 stock index futures pit.

News of the investigation shook traders on the exchanges late last week. "It's driving us nuts," one trader moaned, "but if it is going on, I'll be glad to get it out of here." The price of a seat on the Chicago Board of Trade dropped by $35,000 on Thursday to $410,000, but trading volume did not appear to have suffered.

Commodity traders are a loyal breed and many have rushed to defend their markets. "This only happens when ambitious, young prosecuting attorneys want to make a name for themselves by abusing RICO and scaring people into testifying," fumed Mr Paul McGuire, who has been trading grains at the Chicago Board of Trade for 40 years.

LOMBARD

The rethinking of socialism

By John Lloyd

THIS YEAR should see the fruit of two efforts of thought on the part of the British left. The first is Labour's policy review: the second, the early offerings of the Institute for Policy Research, the left-leaning think-tank.

The policy review is unlikely to fulfil the high hopes which were invested in it. It certainly has not been, and now probably cannot be, the brainstorming many hoped for. Certain to be adopted by the party conference in October, it will contain some new formulations which its spokesmen and women may find useful – but that is probably the limit of it. The Big Idea has not been found – but many, including Mr Roy Hattersley, Labour's deputy leader, would argue that it has never been lost and is called socialism.

The think-tank looks more promising. Its appointed director, James Cornford, now director of the Nuffield Foundation, is a man whose unhistrionic instincts may serve the cause of alternative thinking well.

He already has a list of themes he wants the institute to tackle. It is headed by an examination of what will be the likely constraints on a future government of global interdependence and of the single market in Europe. That is followed by a look at the case for the public sector, with some emphasis on efficiency and on the place of worker buyouts in privatisation.

He also wants the institute to map out the terrain likely to be inherited by any government of the 1990s in education, in the environment and in the sphere of arms control. He will undertake research on constitutional issues (not, curiously, on proportional representation, though he is a believer himself).

The first two subject areas in particular go to the very heart of the policy dilemmas of the opposition parties. If he can succeed in developing sturdy and practical thinking there and elsewhere, he should ensure:

(a) That there will be available policy thinking which is more than just a lick of market-oriented paint on tired old ideas, but derives part of its logic from an intelligent anticipation of the future real world.

(b) That this policy will be non-utopian and capable of tackling vested interests when they lie athwart the general good.

(c) That the inflation of rhetoric in the non-Tory strand of politics, always threatening to lurch into lurid denunciations and forecasts of catastrophes and tyrannies which never materialise, will be punctured by rational thought rigorously addressed to real problems and the activities of real people. That, in turn, should make debate much less unequal: and allow those who have longed to do so to turn their reason, rather than their sentiment, loose upon alternative policies.

The *flaw*, which may be a great one or may not matter, is this: Cornford has deliberately chosen a way of working which is not concerned to reassert or re-establish an overarching philosophy. Where the right wing think-tanks attacked nothing so vigorously – at least in their early days – as the *conservative* past, seeing it as crypto socialist, he takes for granted there is an area of politics called socialist, or social democratic, which simply needs some new and sensible concepts to form the basis of government once more.

It may be that there is nothing else for it: that any investigation of "what is socialism?" begs so many philosophical, historical and political questions that it must perforce be left to the professors who might come to a view on it by the end of the millennium. Yet to take this hard-headed approach is to risk being pushed back by inches on a slippery slope, unable to declare that *here*, precisely *here*, is a stand to be made.

The problem with British socialism/social democracy/liberalism is that it is such a mishmash of pro- and anti-market sentiment, chauvinism and internationalism, utopianism and nit-picking, idealism and pettiness, messianism and vested interests, that it might need to be given a sheet anchor before it can stop bobbing about long enough to concentrate on the specifics.

LETTERS

Reasoning with the money supply

From Mr Aubrey Jones.

Sir, Mr Frank Blackaby's article on inflation (January 9) and the resulting letters both seek to explain the present rate of inflation by either too fast rising wages or too much money. In a complex society it is implausible that any one phenomenon, if it can be isolated, can be explained wholly by either one thing or another.

If one abstracts from the complexity and assumes that relationships in a society are reasonably stable, then indeed the hurling on to the streets of a large quantity of banknotes will probably generate inflation.

Yet if the supply of money is kept reasonably steady, but the government of the day propagates the doctrine that when economic agents pursue their self-interest they automatically promote the general interest, then employers and employees will feel freer to bid or force up wages, and this also will probably generate inflation. Inflation from this cause will be aggravated if employers, believing in the beneficence of market forces, prefer to "buy" labour from other employers and other regions rather than train the labour they have. In this sense Mr Blackaby is right.

Professors Capie and Wood (January 17) write of "policies [presumably fiscal and prices and incomes policies] which have been tried and failed." It could also be said that in the course of the 1980s the attempt to eliminate inflation by restricting the supply of money has in its turn failed, in that it has been complemented by an attempt to keep stable the value of the pound in terms of the currency of West Germany, a country, be it noted, with different social institutions.

Aubrey Jones,
120 Limmer Lane,
Felpham,
Bognor Regis,
West Sussex

Taking your claim to the board

From Mr Maurice Healy.

Sir, In the debates about no-fault compensation and contingency fees, A.H. Hermann's piece (January 18) on compensating accident victims is both timely and to the point.

The National Consumer Council is considering ways in which the risks, complexities and delays in the law which deter many consumers from pursuing their claims might be circumvented.

One proposal we are looking at is for a board, staffed by experienced personal injury lawyers, to be established. Consumers who thought they had a claim would apply to the board, which would assess the value of the claim on the basis of accident and medical reports. The board would then offer to buy the claim from the consumer, probably for a proportion of its assessed value.

If the consumer accepted the offer he would then receive his compensation and assign his claim to the board. However, like an insured who has been compensated he would be under a duty to assist the board in pursuing the claim.

It could be expected that the board would skilfully pursue any claim and that few cases would reach the courts. If the consumer chose not to accept the offer he would be free to pursue his own case.

Maurice Healy,
National Consumer Council,
20 Grosvenor Gardens, SW1

No comparison

From Ms R.H. Galvin and Mr R.A. Revel-Chion.

Sir, We refer to David Waller's article which looks at Rowntree after six months of Nestlé control (January 19).

We take issue with the comparison made between Rowntree's retained authority in the UK, including the added responsibility for developing Nestlé's worldwide confectionery business, and imagining Grand Metropolitan giving Pillsbury control over its world strategy for foods.

Pillsbury was indeed similarly acquired for its major brands and to give Grand Met a market presence. The North American food giant, however, was greatly troubled by second-rate businesses, poor marketing, a high turnover in management and plunging profits.

This is hardly analogous to the situation at Rowntree, a highly profitable organisation with an untainted record of success which already had the strategy and proven expertise in Europe to fully exploit the benefits of a truly liberalised Common Market.

R.H. Galvin and
R.A. Revel-Chion,
Rowntree Pension Trust Limited,
York

Approaching the issue of pre-emptive rights

From Mr Roderick Dewe.

Sir, Your Lex correspondent misses a number of points in his analysis of the Treasury's attack on pre-emptive rights on new issues for cash (January 18):

- The institutions' guidelines do allow some breach of the principle already. So of course does the law, provided shareholders consent.
- Most chief executives of listed companies consider the rights system for raising equity capital expensive and restrictive.
- The building societies remain the chief haven for the bulk of the nation's personal savings and, because of the limitations on their powers of investment, remain a huge untapped source of funds for investment in industry.
- Non-cash issues aimed to secure cash (bids for investment trusts, for example) are not subject to the same limitations nor are takeovers for shares of other classes of assets. Why should cash be treated differently from other forms of assets?
- Research during the privatisations, far from just showing that the public at large knows a good deal when it sees one, also indicates that building society members are more than ready to place part of their savings in other risk instruments if the transaction is simply presented and easy to execute.

You conclude that since 75 per cent of the shares in our listed companies are owned by institutions, and since they have gathered together to lay down the pre-emption guidelines, companies and others should bow to their wishes. This is tantamount to saying that you are happy to maintain the existing channels for providing new capital for industry (now virtually all institutional money) and that any attempt to get institutions to soften their stand on pre-emptive rights, so as to allow other sources of funds to come into play, is misguided.

Of course the shareholders of *a company are its owners, and* of course the views of the majority should prevail.

But when our fiscal structure is such that it drives so much of our long-term savings into the institutions, and when they are so well organised that they can represent their own interests so forcefully, surely there should be a countervailing pressure to allow companies to approach a wider base of investors if their managements conclude it is to their organisations' commercial advantage.

In particular, why should they be precluded from recruiting overseas investors as a new source of capital?

A first, perhaps uncontroversial, step might exist if the corporate bond market were to reappear in any force. A new *class of medium-term capital* from a company with a strong national brand might be just the thing to attract the British saver at large, particularly in the light of the shrinkage of the gilt-edged market.

You seem to imply that the privatisations show that the public will only buy shares directly if they think they are being given something for nothing, but that the institutions are grown-up enough to buy shares on the individual's behalf at the full market price – whatever that means.

I sincerely hope fund managers do not totally abandon their hunt for undervalued instruments in favour of indexing their portfolios, but neither would they claim that they were the only people who can spot a good deal. It is patronising and insulting to the private saver to presume otherwise.

Any move to relax the regime of pre-emptive rights clearly requires regulation to prevent abuse, but this is no reason not to encourage the process.

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FINANCIAL TIMES
Monday January 23 1989

By Janet Bush on Wall Street

Risk, return and lunch at the desk

MR MARTY Zweig, whizz Wall Street forecaster, rarely takes lunch away from his desk. It is not unusual for him to track Tokyo markets until the early hours of the Manhattan morning. His office sports mementos of the stock market past with walls lined with valuable old share certificates and a set of ancient ticker tape machines. He is very successful.

This may all smack of the over-earnestness which sometimes makes Wall Street a rather dull place but Mr Zweig seems to combine a formidable appetite for work with a genuine excitement about his job and a sense of fun.

Ticker tapes apart, his office is crammed full of toys and gadgets which, he says, are necessary to relieve the tension when the markets get tough. "I am not a happy camper when my funds are at a discount," he says.

There is a four-foot red toothbrush, a gift from Drexel Burnham Lambert who went on a road show to launch Mr Zweig's first fund and was impressed with his devotion to dental hygiene. There too is a Ouija board, a wry comment from friends about the scientific nature of stock market forecasting.

Mr Zweig says he does not attempt to forecast the market, merely to measure risk. "It is a probability game but if you play the game, cutting back when the risk rises, you can beat the market," he says.

He was one of that celebrated band which called the October crash. He cut his stocks exposure from 85 per cent to 42 per cent on Labour Day – September 7 1987.

If subscribers to his newsletter, the Zweig Forecast, took his advice, they would have been up 9 per cent on Black Monday. "I knew it was going to be a great day for us but it wasn't that good a feeling. It was like sitting in a lifeboat and watching the Titanic go down."

In 1987, his Zweig Fund gained 14.4 per cent in value. Mr Zweig is a self-professed perfectionist. While acknowledging that his fund did pretty well in the year of the crash, he wishes now that he had cut his equity exposure by another 10 per cent and made even greater returns for his clients.

The Zweig Fund, with just over 350m under management, was up 17.1 per cent last year despite Mr Zweig's cautious attitude to the market. "I am not out to beat the hell out of the markets of the world: I just want to do OK."

Unfettered by being responsible for clients' money, Zweig Partners, an internal fund, gained a sparkling 67.5 per cent in the year of the crash and was up about 40 per cent last year.

Mr Zweig's formula is the fruit of long years and is a lot less complicated than some of the quantitative, computer-dependent models used by other money managers. He uses a stocks model and a bonds model the movements of which trigger changes in the weighting of his portfolios. Does he follow their signals religiously? "Oh yes, I am no hero."

His bond model, which took six years to build, relies on a mix of inflation indicators, trend analysis, short-term interest rates and simple mood.

The models signal a buy or sell. The value added comes from careful stock selection. Responsible for what has been inspired picking is Mr Joe DiMenna, who has been working with Mr Zweig since he was 18. He is now a taciturn, patient 30-year-old.

One of Mr DiMenna's inspired decisions was to establish a short position in Sooner Federal of Oklahoma, an ailing savings and loan. It traded at around $20 at the end of 1987, amazingly unaffected in the crash, hovered around $17 to $18 most of last year and plummetted in a straight line in late 1988 to trade at $3½ today.

So, what is Mr Zweig and his team's current view? The answer is still pretty cautious on stocks and reasonably optimistic on bonds.

The Zweig Total Return Fund, Mr Zweig's second, was launched in September, designed for risk reduction. The fund is currently around ¾ invested in bonds and ¼ in stocks. Mr Zweig was last week increasing his exposure to the bond market with yields of over 9 per cent.

The outlook for stocks is also improving, according to Mr Zweig's models. The strength of short-term interest rates puts up an obstacle but sentiment indicators are good and there is a lot of cash around. Interest rates allowing, Mr Zweig is poised to move more money into stocks when his model gives him the go-ahead.

Probe into buying of Guinness Peat shares

By Nick Bunker in London

A BUNDLE of documents detailing what appeared to be covert buying of the shares of the UK's Guinness Peat financial services group (GPG) has been shown by Bank of England officials to the Serious Fraud Office.

The documents are understood to have arrived at the Bank from an anonymous sender in the middle of last year. They then prompted an investigation by the Bank and by the Stock Exchange into allegations that the share-buying was by Australian companies linked to Equiticorp International, the New Zealand-based group which took 61 per cent control of GPG in October 1987, just before the equity market crash.

When Equiticorp took over GPG, it financed the deal with loans from 28 banks, with the GPG shares as collateral. Any large-scale buying of the group's shares would have had the effect of supporting GPG's share price.

News of the investigation emerged in the aftermath of Friday's announcement that Equiticorp has called in provisional liquidators after failing to clear a debt burden of NZ$1bn ($628.9m).

Purchases of GPG shares are understood to have been looked at. One purchase was before the 1987 crash and another in early 1988, before the demerger in which GPG spun off Guinness Mahon, the merchant bank which it previously owned.

The Bank is understood to have taken the documents seriously, because they appeared to raise questions about whether Equiticorp was a fit and proper party to control Guinness Mahon, in which Equiticorp still has a 61 per cent holding. The Bank passed the documents on to the Stock Exchange before drawing them to the attention of the Serious Fraud Office.

News of the investigation astonished officials at Guinness Mahon, which has been operating in complete independence of GPG and Equiticorp. The Marquess of Douro, who last November became deputy chairman of Guinness Mahon and chairman of its executive committee, said he was unaware of any approach to the bank by the investigators.

Mr Peter Quinnen, chairman of James Capel, which advised Equiticorp on the demerger, is travelling overseas and was unavailable for comment yesterday. His deputy, Mr David Dugdale, said he knew nothing about any investigation. "I'm waiting to hear more when I get into work," he said.

A Korean student launches an attack on police during an anti-government demonstration by 10,000 workers, students and dissidents in Seoul on Sunday

Seoul dissidents' united protest

Our Foreign Staff

SOUTH Korean riot police clashed in the capital Seoul yesterday with thousands of demonstrators calling for the overthrow of President Roh Tae Woo and the expulsion of US troops.

The protest was the first action of the Coalition for a National Democratic Movement, an umbrella organisation of about 20 dissident groups, which was formed on Saturday.

More than 10,000 workers, students, labour activists and dissidents massed peacefully in the streets before heading for the headquarters of President Roh Tae-woo's ruling Democratic Justice Party several blocks away.

They were blocked, however, by about 1,000 riot police and several hundred protesters responded with a barrage of petrol bombs and rocks. They were driven back by police volleys of tear gas.

Some 3,000 activists massed on a Seoul university campus to launch the coalition, which it is thought could develop into a hardline reformist political party.

Among the coalition's leaders are Mr Kim Kun-tae, winner of the Robert Kennedy human rights award in 1987 and Mr Lee Bu-yong and Mr Chang Ki-pyo, who were released from jail under a presidential amnesty last year after being convicted for organising a 1986 street riot in the western city of Inchon.

Mr Lee told reporters on Saturday the alliance was formed to bolster a campaign for "democracy, the survival of the masses, the withdrawal of foreign troops and nuclear weapons (from South Korea) and unification of the Korean peninsula."

During the demonstration the radicals shouted "drive out Americans" and chanted slogans accusing the Government of colluding with business conglomerates to supress labour activism. They also called for the repeal of what they said were repressive laws.

Anti-Americanism has become a strong theme to recent protests by radical students, who blame the US for the division of the Korean peninsula in 1945 and the installation of a series of repressive rulers in the South.

More than 40,000 US troops are stationed in South Korea under a mutual defence treaty, but US and South Korean military authorities refuse either to confirm or deny the existence of nuclear weapons in the South.

President Roh last month ordered a crackdown on violent anti-government and labour protests, saying they would harm national development.

Computer standards row 'may be costly for makers and users'

By Alan Cane in London

SERIOUS disagreements in the computer industry on establishing worldwide standards are perpetuating an industry war which is likely to prove expensive for manufacturers and users, according to several large users.

The users include the European Commission, Lockheed Corporation and Royal Dutch/Shell, which are all members of a council set up last year to advise X/Open, a consortium of big manufacturers, on developing industry standards. The manufacturers include International Business Machines and American Telephone & Telegraph.

The users say the manufacturers, while paying lip-service to the ideals of X/Open, are in fact generating a backlash of anger and frustration which could have serious long-term consequences for all involved.

The row has forced computer makers and software vendors into a series of unlikely alliances. It centres around Unix, a software system (operating system) to control the operations of small and medium sized computers originally developed by AT&T.

Computer makers, software developers and customers agree that Unix is the best choice of an industry-wide or open standard operating system.

Its adoption could lead to big savings for computer users, who could run business software on any Unix machine. There would also be savings for software developers, who would be freed from having to write programmes for a particular manufacturer's proprietary system and thereby limiting their market. Unix is being increasingly specified as essential in government contracts worldwide.

Opposing camps – Unix International, led by AT&T, and the Open Software Foundation (OSF), guided by IBM – emerged last year, however, each claiming its version of Unix should become the world standard.

Talks aimed at resolving the dispute failed at the end of the year and both sides have indicated they see no point, for the moment, in further talks.

The collapse of the talks has enraged members of the X/Open advisory council. They see the use of two Unix standards as only continuing confusion and expense.

Mr Walter de Backer, director of Informatics for the Commission of the European Communities (CEC) said: "The confusion that this split is causing among users will slow down progress in the marketplace. We at the CEC are of the opinion that the extra costs of working with different open systems environments should be borne by the industry."

Mr Uwe Hartmann, a director of Daimler-Benz of West Germany added: "The rivalry between Unix International and the OSF is counterproductive to the initiative of open systems and is not in the user's interest."

The two sides, meanwhile, continue to develop their own versions of Unix and expect to market their first products this year. Mr Wim Roelants, general manager of the information group of Hewlett Packard, US minicomputer maker and one of the 60 or so OSF members, said: "At least, two versions of Unix is better than the 20 or so we have at present."

Plessey rules out poison pill bid defence

By Hugo Dixon in London

PLESSEY, the embattled UK electronics group, has ruled out cross-shareholdings with friendly companies and any other poison pill defence – deals designed to make a company less appetising to its pursuers – in its fight to remain independent.

A Plessey director said at the weekend the company also accepted it would be difficult to persuade a white knight to out-bid GEC, of the UK, and Siemens, of West Germany, which have offered £1.7bn (about $3bn) for the company.

Plessey is pressing on with its battle for independence despite the collapse last week of the consortium organised by its merchant bank which was trying to mount a £7bn counter-bid for GEC.

Plessey is continuing its legal claim to buy out GEC's half-share of their telecommunications joint venture, GPT. The company is also believed to be considering other conventional strategies.

Plessey will be seeking to increase its share price above the level GEC and Siemens are prepared to pay and attempting to persuade the Monopolies and Mergers Commission to block the bid.

The Plessey director ruled out poison pills on the grounds that "our shareholders would not vote for them." Under rule 21 of the City of London's Takeover Code, companies under siege must ask their shareholders to approve any contracts not in the ordinary course of business. This provision is designed to prevent managers from frustrating a takeover by doing deals that reduce their company's value.

The Plessey director said that arranging cross-shareholdings would come under rule 21, as would the signing of substantial joint ventures. There have been suggestions Plessey might need to make itself bid-proof by putting large chunks of its business into joint ventures in much the same way GEC has.

However, GEC did not need shareholder approval for its plans because the counter-bid failed to materialise. Although the GEC/Siemens bid for Plessey technically lapsed after the Monopolies Commission started investigating it earlier this month, the main provisions of rule 21 still apply.

The Takeover Code would not, however, be an obstacle to a white knight trying to outbid GEC and Siemens. The problem with this strategy is a poison pill contained in the agreement setting up GPT. This gives GEC the right to buy Plessey's half share of GPT at a price determined by auditors if control of the company changes hands.

It is thought auditors would put a price of £600m to £700m on Plessey's share compared with the £800m-£900m it might receive by selling to the highest bidder. A white knight seeking to outbid GEC/Siemens would therefore have to overpay by about £200m.

"People might be prepared to overpay by a couple of hundred million pounds for GPT, but probably not for the rest of Plessey's business," the director said.

THE LEX COLUMN

Japan takes to takeovers

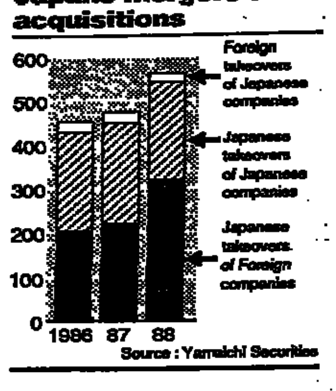
When it comes to reducing Japan's trade surplus, the exchange rate may be starting to look rather a dead issue. But Japan's mergers and acquisitions specialists know what the mighty yen can do, and are busy trying to persuade their clients that now is the time to do it. On the whole, Japanese industry still seems to think that growth by acquisition is a less honourable route. But someone must be listening to the M&A merchants: the Japanese bought more than five times as many foreign companies last year as in 1984, when the yen was worth half what it is now.

True, the Y1.9 trillion ($15bn) they spent on such transactions may sound like Nippon Life's petty cash. And it surely does not merit all the chauvinistic fuss made about it in America: until Japan's share of total mergers and acquisitions by foreigners in the US rises above last year's measly 5 per cent or so, America would do well to find something else to moan about. But rise it will: Y1.9 trillion (million million) is four times as much as Japan spent buying foreign companies as recently as 1986. And Yamaichi Securities – which does enough M&A business itself to know what it is talking about – reckons the figure will increase by another 50 per cent this year.

It does not take a genius to see why America looks cheap to the Japanese; or to understand why companies which needed to restructure quickly to beat the yen should have looked for a few quick US purchases to speed the process. There is also the liquidity argument, which seems to be flexible enough to accommodate not only ever higher Tokyo share prices, but also ever larger Japanese corporate purchases abroad. But given that the Japanese believe in knowing what they are doing before they do it, it may take a while yet before Japan can approach America with its confidence – as well as its Y10,000 notes – to the fore.

That, presumably, is where the M&A specialists come in. They sell themselves as having the experience which clients may lack. And though there are more and more of them all the time – many of Japan's City banks, trust banks, securities houses and corporations are getting into the business, not to mention the foreigners – they appear to be keeping busy. The Tokyo 'phone directory even boasts one called Nomura Wasserstein Perella, which is rapidly becoming a household name in M&A despite the size of the linguistic task involved.

Japan's mergers and acquisitions



Source: Yamaichi Securities

The latter believes there is plenty of scope for domestic deal-making as well. The home-grown version of the greenmailer thrives on Japanese corporate soil already; and though the greenmailers' methods scarcely recommend them, they have at least made corporate shake-ups look a possibility. But though the number of domestic deals has risen sharply in recent years, it seems unlikely that investment bankers will be making fortunes in the domestic market any time soon. Hostile takeovers between Japanese companies look like remaining a corporate taboo for quite a long time yet; and when it comes to hostile foreigners, forget it

UK market-making

The changes in the London Stock Exchange's rules on market-making being considered by the executive today look petty in themselves, but could have momentous consequences. The new rules – delayed reporting of big trades, and the removal of the obligation on market-makers to deal with each other – will discriminate in favour of big, established brokers against newcomers, and could perhaps favour big investors against small. Perhaps above all, they represent an attempt to cope with the crisis in the securities industry by reverting to old-style club rules. If Big Bang was hasty and ill-conceived, it at least achieved its central object of forcing the London market into the global arena; the industry now risks reverting to parochial status.

In particular, the issue has elements of Anglo-American confrontation. Based as it is on NASDAQ, the Seaq system in its present form is intelligible to US brokers in London, whereas the old opaque jobbing system is not. As before Big Bang, market-makers will now help each other out, but only on the basis of established relationships. A US broker seeking to execute a US sell order in ICI, but lacking a UK client base, can no longer rely on unloading the stock with Warburg or Smith New Court.

Some would say it serves them right. Several of the smaller brokers – not only American – are perilously close to being fair-weather market-makers, automatically adjusting their prices to stay outside the touch and leaving it to the big houses to do the hard work of servicing all comers. But London faces constant competition as a financial centre, and if foreign houses cannot do business on the official stock exchange, they will go elsewhere, in or out of the UK. This would suit the old guard, but surely no-one else.

The UK institutions, meanwhile, profess themselves broadly satisfied with the changes; if market-makers are sheltered from their colleagues and have untill next day to unwind positions, they will be the more ready to deal for clients in size. This may be short-sighted. The present overcapacity in the market means the institutions have the whip hand, but if all this leads to an old-style cartel, they will have only themselves to blame. They may also be faced with imperfections in futures and options markets: if, for instance, the prices of FT-SE stocks do not reflect large unpublished trades, the FT-SE future will to that extent be an unreliable instrument.

It can also be argued that delayed publication of large deals deprives small investors of material information. But this may be excessively purist. It might be asked how many private investors – or their brokers – now sit glued to the screen, poised to jump in behind the big trades; and for every would-be buyer who gains at present from the price being instantly depressed by a big sale, there is presumably a would-be seller who loses.

The real worry about the changes, though, is the spirit in which they are being undertaken. It was to be expected that the structure of the post-Big Bang market would need adjustment; after all, it replaced something which had taken a couple of centuries to evolve. The trouble is that instead of long-term strategy, London is opting for short-term panic reactions, and retrograde ones at that.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	R	08	46	Dubrovnik	S	13	55	Malta	C	15	59	Rhodes	S	13	55
Algiers	F	15	59	Edinburgh	S	06	43	Manchester	C	06	43	Rio de J'o	C	37	99
Amsterdam	F	06	43	Faro	S	16	61	Manila	C	32	90	Rome	R	09	48
Athens	C	14	57	Florence	C	07	45	Melbourne	C	18	64	Salzburg	C	-2	28
Bahrain	F	20	68	Frankfurt	C	03	37	Mexico City	F	20	68	San Francisco	C	19	66
Bangkok	F	33	91	Funchal	C	17	63	Miami	C	26	79	Seoul	F	06	43
Barcelona	S	13	55	Geneva	C	07	45	Milan	R	05	41	Singapore	C	31	88
Beirut	F	26	79	Gibraltar	F	15	59	Montreal	C	-18	02	Stockholm	F	03	37
Belfast	S	04	39	Glasgow	S	08	46	Moscow	C	02	36	Strasbourg	C	06	43
Belgrade	C	04	39	Guernsey	S	08	46	Munich	C	00	32	Sydney	C	25	77
Berlin	C	05	41	Helsinki	C	05	41	Nairobi	R	24	75	Taipei	C	18	64
Biarritz	C	11	52	H. Kong	F	17	63	Naples	R	09	48	Tangier	S	17	63
Bombay	S	28	82	Innsbruck	F	02	36	Nassau	C	28	82	Tel Aviv	C	11	52
Bordeaux	S	10	50	Inverness	S	05	41	New Delhi	F	20	68	Tenerife	S	20	68
Brussels	F	12	54	Islamabad	F	20	68	New York	F	-4	25	Tokyo	F	11	52
Budapest	C	01	34	Istanbul	F	10	50	Nice	C	08	46	Toronto	C	06	43
B. Aires	C	35	95	Jakarta	R	32	90	Nicosia	F	10	50	Tunis	C	13	55
Cairo	F	15	59	Jersey	C	09	48	Oporto	S	11	52	Valencia	S	15	59
Cape Town	F	23	73	Jo'burg	F	29	84	Oslo	F	05	41	Venice	C	05	41
Caracas	C	23	73	Lima	F	23	73	Paris	F	08	46	Vienna	C	01	34
Casablanca	S	17	63	Lisbon	F	14	57	Peking	C	02	36	Warsaw	S	04	39
Chicago	C	-02	28	London	F	09	48	Prague	C	-1	30	Washington	F	-5	23
Cologne	R	05	41	Los Angeles	C	25	77	Reykjavik	Sn	-4	25	Zurich	C	03	37
Copenhagen	F	04	39	Luxembourg	C	06	43								
Corfu	C	12	54	Madrid	F	10	50								
Dallas	F	-2	28	Majorca	D	13	55								
Dublin	F	09	48	Malaga	S	15	59								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Sakharov

Continued from Page 1

sian president is one of only two leading members of the Politburo forced to stand for election in their own republics. The other is Mr Vladimir Shcherbitsky, leader of the Ukraine Communist Party, and the last remaining representative of the Politburo of Mr Leonid Brezhnev to have survived. A suspicion remains that Mr Gorbachev might be prepared to see both men defeated as a dramatic proof of his democratisation process.

The nomination process has proved more chaotic than coherent so far, with three sorts of deputies seeking nomination to the country's new super-parliament, the Congress of Deputies, on March 26.

Of the 2,250 members, 750 have to come from territorial constitutencies of equal size, 750 divided equally between the 15 republics regardless of population, and 750 from "social organisations" like the Communist Party, the trade unions, and the Academy of Science.

FINANCIAL TIMES

COMPANIES & MARKETS

Monday January 23 1989

INSIDE

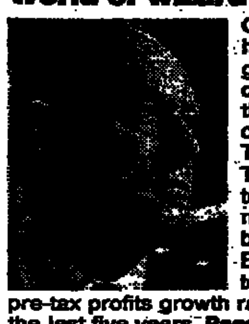
A big step for two US oil giants

Last week's $4.15bn sale of Texaco's Canadian business to Exxon is a big step even for the two giant companies involved. For Texaco the transaction is the climax of a year-long corporate reorganisation designed to stave off a takeover. For Exxon the deal marks a return to a policy of expansion after three years of consolidation, report James Buchan and David Owen. Page 28

Keys to a conundrum

A shortage of information technology (IT) specialists leaves the UK "dangerously exposed" in international trade, according to the Confederation of British Industry. But Britain is not alone in this dilemma. Alan Cane explains why if measures are put in train to ease the apparent shortage of IT manpower, the result seems counterproductive. It is likely to lead to the recruitment and training of more people to create more computer software that neither works nor is fit for its intended purpose. Page 40

World of wizard widgets



Concentric, the Birmingham-based engineering group, makes a better class of widget. At least that is the opinion of the company's chairman, Mr Tony Firth (left). Richard Tomkins charts how this tough, gruff Yorkshireman who suffers fools badly, has guided the Brummie metal-basher to a compound annual pre-tax profits growth rate of 37 per cent over the last five years. Page 26

Canadian bonds come of age

The Canadian Dollar Eurobond market looks to have come of age. The astonishing pace of new issues this year has focused attention on an area which has long been identified with high coupon rates paid to borrowers. The heavy activity has also surprised lead managers who now expect some slowdown while the market gets over a "touch of indigestion" and excess paper is absorbed. Page 31

Market Statistics

Companies in this section

Devil take the hindmost

Controversial stock exchange rule changes could put a number of London's smaller market-makers out of business. US houses in particular have shown hostility to the moves, report Tony Jackson and Barry Riley

From apparently trivial beginnings, the London Stock Exchange is faced with a first class Anglo-American row. The exchange's executive committee meets today to consider technical changes in the market's rules of operation. It does so in the knowledge that the moves are viewed with deep hostility by a number of foreign brokers in London, and by the American houses in particular.

The new rules govern the way market-makers – dealers in shares as principals – go about their business. There are over 30 equity market-makers in London, which in today's conditions is at least 20 too many. As a class, they are losing money.

Under the present rules, market-makers are obliged to publish not only their prices, but the deals they transact. They are also obliged to deal with each other.

In bad times, this costs money. A dealer buys a large block of GEC at below market price: he then tries to dump the stock with his competitors at a profit. But they see the deal on the screen, figure out the source, and swiftly mark down their prices before he can reach them.

To deal with this, the Stock Exchange proposes two simple concessions: market-makers will no longer have to deal with each other, and details of trades above £100,000 in value need not be published on the screen until the following day.

To understand the furore this has caused, one must grasp the power wielded by the established British market-makers such as Warburg or Smith New Court – mostly veteran jobbers from the old days before Big Bang.

Perhaps only they have good enough contacts to take on a large line of stock and be sure of finding another client – as opposed to a competitor – who will take it off their hands.

Since they will therefore get the lion's share of deals above £100,000, they will be in possession of information which their smaller rivals will only get the following day. An American broker is thus doubly handicapped: lacking the UK client base to be sure of completing both sides of a deal, he is also in the dark on what is happening in the stocks in which he trades.

Faced with strong protests, the Stock Exchange seems to be temporising a little. It is expected that today's meeting will put off a decision for at least another week, on the grounds that some of the technical work has yet to be completed.

But the Exchange is unrepentant about the principle. Mr Nigel Elwes, head of the committee which proposed the changes, says: "I do believe that there are several market-makers who add nothing to the strength of the market, and exploit their ability to unwind their positions on serious market-makers. This is not good for the overall health of the market."

There are, after all, too many market-makers chasing too little business. "My expectation is that the rule changes are likely to squeeze some people out of the market – fair weather market-makers, who perhaps do not have a good distribution system. I accept there will be a degree of polarisation as a result of these changes."

Mr Elwes also claims that pressure for change has come from the investing institutions, who have found themselves handicapped in doing big deals by the nervousness of market-makers.

A straw poll of leading London fund managers suggest that they have indeed been persuaded that the big market-makers will be more willing to take on stock under the new rules, and also that they are concerned about the blood being spilt in the London market place.

"There is some logic to the idea that market-makers should be able to conceal their big trades for long enough to tie up the other side," says Mr Neil Dunford, head of pension fund management at *Morgan Grenfell*. He believes the loss of transparency would be "a price worth paying."

Another leading pension fund manager describes the measures as representing "a little step towards the return of sanity." He welcomes any moves back to the old pre-Big Bang situation when jobbers had time to lay off their positions. "There ought to be a community of interest between market-makers and users of the market," he argues.

Fund managers recognise that the changes will favour the bigger market-makers. But several of them agree with Elwes that there are too many small operators at present in the London equity market, and back that up with stories of unanswered telephones and piggy-back pricing. As one puts it: "We are getting fed up with smaller market-makers who are misusing their privileges."

From the British point of view, the proposed solution sounds very cosy. But for US brokers, used to the transparency of the Nasdaq screen system at home, it is not merely a tilting of the playing field in favour of the UK establishment, but a backward step in terms of the quality of the market. It is, says one, "a knee-jerk emotional reaction to the short-term economics of the market, and doesn't take account of its long-term integrity."

And as another bitterly remarks, the New York and Tokyo markets are also suffering from excess capacity, without apparently feeling the need to change the rules. "We can make money elsewhere than the UK," he says. "The issue for international players is not what does this mean for us – it's what does it mean for London."

Lex, Page 24

SYSTEMS COMPARED

	NASDAQ	SEAQ
Number of market makers	About 540	About 35
Size of quotes	Normally 100 shares	5,000 shares upwards
Market makers must deal with competing market makers ?	Yes	Yes now no in future
Publication of trades	Instantaneous	Now–5minutes In future–90 secs (next day if over £100,000)

Offered hand could become a fist

Anthony Harris in Washington explains the way in which the Bush inaugural signalled a change in Presidential direction

Like many people in my generation, I formed my preconceptions of ordinary Americans from a mixture of Mark Twain and James Thurber – misleading, no doubt, but warmly attractive. One figure in the Thurber stories was a mystery until just the other day: the Good Humour man, who used to call on his aunts. It was not until years after they elected him President that I discovered that Thurber's Good Humour man simply sold ice-cream.

President Bush's inaugural, proclaiming "the age of the proffered hand," may have been long on Mrs Peggy Noonan's rhetoric and short on specifics, but it still clearly marked the change. It was short, most significantly, on Mr Reagan's unsinkable optimism. The new realism was proclaimed in more explicit terms by the new Budget Director, Mr Richard Darman, when he called for an end to self-deception; this is a promise, but also a threat.

Mr Reagan's temperament was very good for American morale, but a terrible weakness when things went wrong. He was almost incapable of facing any unpleasantness, so he shut his eyes to the doubtful ethics of his old friends, and confronted the deficit in the spirit of Mr Micawber, waiting for something to turn up.

When trouble was really unmistakable, as with Iran-Contra, he fell into months of withdrawn silence. This weakness, though, had its advantages. The President's evasiveness, coupled with the elephantine patience (and wisdom) of Mr George Shultz, prevented confrontations. America's allies had a pretty good-humoured eight years.

Mr Bush seems to be easily hurt, and Mr James Baker, the new Secretary of State, likes quick results. This suggests a new impatience, and could prove a sad bit of timing. In many ways the present economic situation seems to call for the Reagan touch. As the currency markets are telling us, there is now a very good chance that something will turn up.

The November trade figures, for example, are rather promising, as the markets quickly understood. Nearly all the recent rise in imports, which has opened up the gap again, has been in capital goods, where shipments have been running at near $10bn a month, a remarkable figure. Capital spending plans are down by nearly half for 1989, and this could reduce the monthly deficit by $4bn or more before long, even if exports remain stuck at their present level – and industrial surveys suggests that they are about to come unstuck.

If the trade improvement resumes, we will not hear nearly so much about the fiscal deficit; and if the dollar stays strong, the Federal Reserve's fears of inflation should be soothed. American bond investors are already sensing these possibilities, and a growing number are following the advice of the Bank Credit Analyst, a normally gloomy Canadian monthly, which has announced that this is the best bond-buying opportunity for many years.

The US Treasury has up to now managed the world's biggest borrowing programme without employing a debt manager – perhaps because Mr Donald Regan, who first faced the problem, was an ex-stockbroker and liked good returns for investors.

It hardly needs a manager at the moment; but if Mr Darman and the Treasury Secretary, Mr Nicholas Brady, who are both investment bankers in private life, apply their skills to the problem, they could make a real dent in future deficits.

The politics of the situation look rather different. Before the election campaign, Mr Bush was inclined to be fairly relaxed about the deficit, but he was advised that he must confront it if he was to be a credible candidate.

The programme is still a credibility test; and the Democrats in Congress understand very well that the proffered hand will not be held out for very long. If refused, it becomes a threat: it suggests that it is Congressional obstinacy rather than White House obduracy which keeps the problem alive.

It is not clear that the allies even have a proffered hand to grasp; the inaugural was light on foreign policy, and concerned mainly to offer a cautious hand to Moscow.

The long hearings with Mr Baker were more revealing; the strongest interest, apart from summitry, was in Latin America. Mexico, in particular, is engraved on the heart of this very Texan Administration. The debt problem, as seen from Washington, is the Latin American debt problem, and the American instict is to tackle it under the Monroe Doctrine – that is, bilaterally.

This has already caused an early breach with Europe. Mr Gerhard Stoltenberg, the West German Finance Minister, came to Washington a few days ago to get acquainted with the new regime, and to make a seemingly non-controversial speech calling for bigger resources for the IMF and the World Bank to help with the debt problem. At almost the same moment, the US Treasury announced its formal rejection of bigger IMF quotas.

This was hardly an accident. There was a clear warning in the promotion of Mr David Mulford to deputy secretary at the US Treasury, for Mr Mulford is an entrenched opponent of the multilateral approach to debt.

There are plenty of other potential disputes. The transfer of Dr Clayton Yeutter from the trade ambassador's office to the Department of Agriculture is a guarantee that the American assult on the EC farm policy will be sustained.

A rising dollar could mean renewed protectionist pressures. The US steel industry, though super-competitive at present, has already called for extended protection against state-owned competitors in Europe and elsewhere, on the grounds that state industries are ruthless about dumping.

Similar charges against the Airbus group are on the file. The latest figures also show that the US is now dependent on imports for more than half its oil supplies. An oil import "fee" would help the Texas oil industry and the deficit, and seems to pass the lip-reading test too.

Some of these issues may look trivial (though the farm issue, which could still undermine the whole Uruguay round, is not); but when they confront an Administration which seems to have its mind anywhere but Europe, all are potentially damaging.

The potential has become much stronger in the last two weeks, because the Libyan poison gas affair has been a diplomatic disaster which even in the serious American press is discussed as if it convicted all Europe (with a half-hearted saving clause for Mrs T) of ruthless veniality. The fact that the inaugural proffered no hand across the sea may not have been accidental.

Economics Notebook

Internal divisions impair G7

WILL IT be the G7, G8 or G-more-than-that which meets in Washington on February 3?

Last week's decision by the West German Bundesbank to raise its key interest rates in the face of the dollar's continued strength was unwelcome to say the least in the Bonn Finance Ministry.

It was also a reminder that the world's leading seven industrial nations are often as internally divided on issues of monetary policy and international economic policy co-operation as they are in the G7.

This is one of several reasons not to expect dramatic developments when the finance ministers and central bankers of the US, Japan, West Germany, France, Britain, Italy and Canada meet next month.

The Frankfurt-based Bundesbank has a unique position among central banks, and this sometimes explains why the G7 looks like a G8.

It is independent by law. When last Thursday it lifted its discount and Lombard rates by one half percentage point to 4 per cent and 6 per cent respectively it merely advised the Finance Ministry of its action. It did not consult Bonn.

Mr Gerhard Stoltenberg, West Germany's long-serving Finance Minister, should be used to such behaviour. His irritation last week – expressed in a notably lukewarm press statement about the Bundesbank's move – reflected the misfortune that he had given the impression in the US only the week before that German interest rates did not need to rise.

But it was not just Mr Stoltenberg's self esteem that was injured by the Bundesbank's action. The unexpected rise of the dollar since November has also exposed differences between Mr Stoltenberg and the Bundesbank's president, Mr Karl-Otto Pöhl over the dangers that recent currency developments could mean for the West German and world economies. Mr Pöhl, charged by law with fighting inflation, sees the D-Mark's weakness as a threat to West German price stability in a year when higher indirect taxes are set to push prices higher.

Mr Stoltenberg by contrast has a politician's concern for industry's profits and voters' jobs. No matter how much he may agree intellectually with Mr Pöhl's views, there is part of him that thinks a strong dollar is good for West German exports.

The distinction between the two men surfaced two months ago when the February G7 meeting was first suggested and also at the last G7 gathering in West Berlin in September.

If the dollar is still strong when the ministers and central bankers meet, it can only add to Mr Pöhl's problems. While the seven nations have been committed to broad currency stability since the February 1987 Louvre accord, the Bundesbank president sees dangers in the way that the policy is applied to nominal exchange rates.

Mr Pöhl would like to see currency stability judged in the context of "real" exchange rates, which would take into account different inflation rates among the G7 partners over the past two years. Nominal stability can produce an overvaluation of the dollar that will make more difficult the hoped-for correction of the US current account deficit and the Japanese and West German surpluses.

Without some deft communique drafting, a G7 meeting in February could seem to legitimise exchange rates, which, in the Bundesbank's view, take no account of the cumulative difference between the low West German and higher US inflation rates. Such considerations could be behind the wholly impractical idea of the US Treasury to hold the G7 meeting without making a public statement afterwards.

In Bonn, the world looks rather different to Mr Stoltenberg. As a typical West German politician, he has a liking for consensus building. The mere ritual of international monetary co-operation with its globe-trotting and back-slapping may also win votes. It is, therefore, not surprising that he was an early supporter of a meeting with Mr Nicholas Brady, the US Treasury Secretary, and the other G7 partners.

But it would be wrong to look just to West Germany for signs of internal differences in the G7: it is simply that the statutory independence of the Bundesbank and its presence in the G7 talks makes them more apparent.

Mr Nigel Lawson, the British Chancellor, will be travelling to Washington conscious that his past enthusiasm for limiting exchange rate movements is not shared by his nextdoor neighbour in Downing Street. For Mrs Thatcher, as First Lord of the Treasury, co-operation loses its appeal when it threatens sovereignty.

The power of Congress poses an even bigger institutional problem for Mr Brady. The US inability so far to lower the budget deficit to levels promised in the past to the G7 partners shows that ambitions to turn international economic policy co-operation into a more binding process of co-ordination based on solemn commitments must overcome the checks and balances in the US constitution.

Peter Norman

THIS WEEK

BRITAIN'S current account deficit will form the centrepiece of UK economic statistics this week. December's figures published on Friday are likely to influence the short-term path of sterling trading and speculation about interest rate trends.

Recent months' figures have moved erratically and financial markets will be wary of another deficit in excess of £2bn. The consensus of analysts forecasts, compiled by MMS International, the financial research company, is for a deficit of £1.5bn, compared with £2.6bn in November.

A fitness check on UK manufacturing comes in the Confederation of British Industry industrial trends survey for January published tomorrow. Analysts will be looking for signs that the Treasury's high interest rate strategy is hitting business confidence.

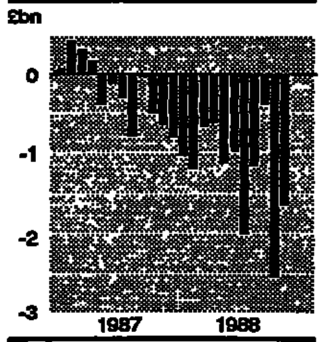
US preliminary figures for gross domestic product in the last three months of 1988 are published on Friday. They will illustrate the strength of activity at the end of last year, possibly affecting speculation about the interest rate outlook. The consensus is for a rise of 2.4 per cent.

The advance report on durable goods for December, measuring orders in the pipeline, is released on Thursday and will provide an indicator of future industrial production.

Oil markets will be focused next week on a meeting in London on Thursday between Opec and non-Opec oil producers. Any signs of movement toward an agreement to co-operate on oil production levels could result in stronger prices, although even Opec officials acknowledge that real co-operation could take a series of meetings to arrange.

French trade figures for December are due on Thursday. Another deficit is expected, possibly adding to anxieties about the path of the trade balance. In November the seasonally-adjusted trade deficit was FFr3.7bn ($333m).

UK Current Account Balance



In West Germany terms of the latest batch of securities repurchase agreements (repos) will be announced on Wednesday.

Japan's consumer price index for December is published on Friday. Analysts will be looking for signs of a moderation in inflation. Also on Friday, retail sales figures for December are expected to show growth remaining robust.

Japanese industrial production figures for December are released on Thursday. The annual growth rate is likely to have remained strong.

Other events and statistics this week (with MMS International consensus in brackets) include:

Today: Australian retail sales in November.

Tomorrow: UK building societies monthly figures for December. US employment costs in fourth quarter (1.2 per cent). Japan, household consumer spending in November.

Wednesday: US Federal budget for December ($8.3bn deficit), two-year Treasury note auction. UK construction, new orders in November.

Thursday: UK energy trends in November.

Friday: France, final December consumer price index. UK quarterly house purchase finance statistics in last three months of 1988. Cyclical indicators for December. Engineering sales and orders in November.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Montedison angers Wall St investors

By Alan Friedman in Milan

MR RAUL Gardini's Ferruzzi-*Montedison group has angered* some Wall Street investors by announcing a $35 per share tender offer for the outstanding 27.4 per cent it does not own in Ausimont, the specialty chemicals concern.

The move goes against the wishes of a special committee of independent Ausimont directors which says the offer is inadequate.

Ausimont's quote on the New York Stock Exchange rose to close on Friday at $35.75 from an opening on Tuesday of $34.

The Montedison offer for 8m Ausimont ordinary shares, which would cost $280m, follows months of controversy among Ausimont directors. The offer has angered the independent US and Dutch directors who believe the break-up value of the company, according to a study by Morgan Stanley for Ausimont, is significantly higher than $35 per share.

Montedison said at the weekend it considered the offer fair. In a statement it said it was going ahead with the offer "*notwithstanding* the views of the special committee [of outside directors]."

Morgan Stanley refused to reveal the break-up value. It said it saw no conflict of interest in having done the valuation for Ausimont last spring and now handling the tender offer for Montedison.

Mr Jim Harmon, an independent Ausimont director and executive at Werthheim-Schroder in New York, said several institutional investors in Ausimont were enraged by the Montedison offer.

"I am terribly saddened and dismayed that Mr Gardini has *decided to act despite our* recommendation that the $35 offer is inadequate and clearly not in the best interests of minority shareholders." Mr Harmon resigned last week from the boards of two other Montedison subsidiaries: Himont and Erbamont.

Because Ausimont is a Dutch-registered company, Montedison needs to lift its stake from 72.6 per cent to 95 per cent before it can bring its own action in Dutch courts to "freeze out" remaining Ausimont shareholders and force *them to sell out.*

El Pais buys stake in rival

By Peter Bruce in Madrid

A *LOOMING Spanish business* newspaper battle took a dramatic turn at the weekend when El Pais, the large Madrid daily paper, announced it is to take a 33 per cent stake in Estructura, publisher of Cinco Dias.

The unspecified investment will come as a timely boost to Cinco Dias, which also counts among its shareholders Expansion, the French business daily, and Dow Jones, publisher *of the Wall Street Journal.*

Pearson, publisher of the Financial Times, nearly took a stake in Cinco Dias last year, before buying a 35 per cent in its Spanish rival, Expansion.

Two new business daily newspapers are to be launched on to the small and crowded Spanish market in the next few months by the publishing groups Grupo 16 and Grupo Zeta.

Dutch insurer in Montreal deal

NATIONALE-Nederlanden, the largest general insurer in the Netherlands, is expanding in Canada by acquiring Groupe Commerce, a Montreal property and casualty company with nearly 10 per cent of the Quebec market. The price was not disclosed, writes Robert Gibbens in Montreal.

The Dutch group is buying the 65 per cent interest in Groupe Commerce held by the Saint Germain and Benoit families and the 35 per cent interest held by Union des Assurances de Paris.

Commerce had total premium income of C$263m (US$222m) in 1987 and assets at year-end in 1987 were more than C$400m.

Wärtsilä pulls out of shipyard merger plan

By Olli Virtanen in Helsinki

WARTSILA, the Finnish metal and engineering group, will not participate in the planned merger of all the country's shipbuilding operations because it regards the state's proposed participation as insufficient.

Finland's three shipbuilding companies – Wärtsilä Marine Industries, of which Wärtsilä owns 70 per cent and Valmet 30 per cent, Rauma-Repola and Hollming – planned to merge their shipyards in a new company, provided the Government participated with an equity stake of about 20 per cent.

The Ministry of Trade and Industry rejected the proposal for a shareholding and also refused to give the new company additional guarantees. However, the ministry promised to increase subsidies, now amounting to less than 10 per cent, to between 10 and 15 per cent of an order's value.

Strong demand boosts Motorola

MOTOROLA, the US electronics group, boosted fourth-quarter income following strong demand for communications equipment, cellular telephones and semiconductor products, Reuter reports.

Earnings climbed to $124m or 95 cents a share from $102m or 79 cents a year ago on sales which advanced to $2.19bn *from $1.86bn. At year-end,* net income jumped to $445m or $3.43 against $308m or $2.39 on sales of $8.25bn, compared with $6.73bn.

Koor hearing delay

AN ISRAELI court yesterday postponed until February 12 the hearing of a suit by New York-based Bankers Trust to break up Koor Industries, Israel's largest industrial concern, Reuter reports.

The Tel Aviv district court judge granted the delay after attorneys from both sides said their clients were working on a recovery plan.

Texaco Canada sale oils Exxon expansion

James Buchan and **David Owen** on effects of a $4.15bn deal for two industry leaders

Last week's $4.15bn sale of Texaco's Canadian business to Exxon is a *massive step, even for the two* huge companies involved.

For Texaco, the third largest US oil company, the transaction is the climax of a year-long corporate reorganisation designed to stave off a takeover.

For Exxon, the largest company in the US industry, the deal marks a return to a policy of expansion after three years of consolidation.

The business being sold, after a lengthy and well-contested auction, is Texaco Canada, a medium-sized producer with 380m barrels of crude oil in the ground, nearly 2,000bn cu ft of gas, two refineries and 1,800 petrol stations.

Last year, the company reported net income of C$320m (US$271m) on revenues of C$2.7bn. But Texaco itself, with 78 per cent control, says Canadian law allows it no access to its subsidiary's cash flow, only to a relatively modest stream of dividends.

This is one reason why dissident Texaco shareholders, led by Mr Carl Ichan, a New York investor, have been badgering Texaco to pull capital out of Texaco Canada and repay it to shareholders. Mr Ichan, who owns 16.6 per cent of Texaco, tried to find a buyer for Texaco Canada during an unsuccessful bid for control of its parent last summer.

Texaco executives say that by waiting for oil prices to improve and then staging a full auction, Mr James Kinnear, the company's chief executive, has gained a much better price for the business than the $3bn or so Mr Ichan was looking for *last summer. Wall Street oil* analysts agree, but say Mr Kinnear is still faced with a dilemma.

Since mid-summer last year, Mr Kinnear has built a mountain of about $7bn in cash from selling low-return assets. These comprise:

- $1.2bn from the sale of the company's lacklustre West German subsidiary;
- $1.8bn from the sale to Saudi Arabia of a half share in Texaco's main refining and marketing operation in the eastern US;
- $3.24bn for its shares in Texaco Canada;
- $573m in special dividends from the Canadian company as well as continued control of its most promising exploration prospects.

What Mr Kinnear does with this money could decide the fate of his harassed company. On Friday, he said he would distribute $1.7bn of it to shareholders by buying back shares, or by some other means. He will use the remainder to reduce Texaco's debt, restructure its balance sheet and invest in the oil and gas business.

But Mr Ichan has repeatedly pressed for more money to be paid back to shareholders, arguing that Texaco cannot invest it profitably at a time of weak oil prices. He has threatened to *relaunch his bid for* control if he is not satisfied with Mr Kinnear's restructuring.

Wall Street analysts say the more Texaco shrinks by paying out cash to its shareholders, the larger Mr Ichan's stake in the company could become. "He has them in a box," says Mr Andrew Gray, an analyst at Pershing, the New York stockbroker.

Ironically, it is Exxon that has set the pace in pulling capital out of oil and gas and returning it to shareholders.

Under Mr Larry Rawl, its down-to-earth chairman, Exxon has baulked at paying premium prices for the scarce blocks of North American reserves to come up for sale. Exxon was notably absent from among the high bidders for Tenneco's oil and gas assets, which sold for $7.3bn last October.

Instead, it has spent more than $9bn since 1985 in buying back its own stock and Exxon's shareholders have enjoyed as good a return as any in the industry.

Exxon was willing to go to town on Texaco Canada, overbidding Royal Dutch/Shell as well as Mr Alan Bond of Australia, because of the potential benefits to its Canadian operation, the majority-owned Imperial Oil.

Although the deal, which will consolidate Imperial's position as Canada's largest oil company, is not as big as last year's C$5.5bn purchase of Dome Petroleum by Amoco Canada, its short-term implications for the domestic energy sector are perhaps greater.

This is because of the hefty portion of Texaco Canada's assets accounted for by downstream facilities.

The purchase will initially turn Imperial – already the largest Canadian-based energy company – into a C$10bn corporation (based on 1987 revenues), nearly twice as big as government-owned PetroCanada, its nearest domestic rival.

All told, the company will boast reserves totalling 2.3bn barrels of crude oil and 5,400bn cu ft of natural gas, refining capacity of 532,000 barrels per day (b/d) and control more than 36 per cent of the Canadian petroleum market.

Texaco Canada's 2,000bn cu ft of natural gas, much of which will not be marketable until well into the next decade, and its up-to-date Nanticoke, Ontario, refinery are widely regarded as the jewels in the crown.

The Nanticoke plant is prized because it can produce half its hydrocarbon feedstock as lead-free petrol. The Government is committed to phasing out leaded fuel by December next year.

The takeover is, however, subject to approval by Investment Canada and the Bureau of Competition Policy (BCP). Indeed, Mr Calvin Goldman, BCP's head, has warned that those responsible for last week's rash of Canadian mergers would be "taking a chance" were they to close deals before a full investigation.

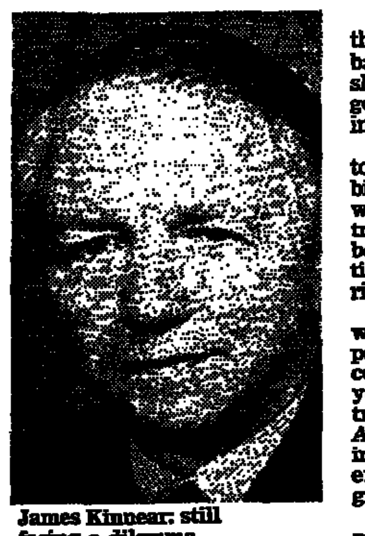
Texaco expects to complete the sale by March 10 and financial penalties will accrue to Imperial if there is a delay.

Imperial has already undertaken to make certain unidentified disposals in a bid to placate the regulators.

These divestments are thought most likely to comprise certain downstream assets, with some of the company's retail outlets and sales terminals at the top of several analysts' lists.

There may also be concern about excessive concentration in the refining sector. The deal leaves only three pan-Canadian refiners and a handful of regional players. Since 1980, closures have scythed domestic refining capacity by more than 1m b/d.

However, the keen competition and relatively high price paid for the Texaco assets has prompted speculation that the Government may soon bring PetroCanada to market.



James Kinnear: still facing a dilemma

European exchanges co-ordinate response to 1992

By Katharine Campbell in Interlaken

FOUR European futures and options exchanges have agreed to co-operate in lobbying officials in Brussels over the lifting of European Community barriers to capital flow in 1992.

The four exchanges – the London International Financial Futures Exchange, the London Traded Options Market, the European Options Exchange and France's Matif – have called their group Eccofex, the European Commission Co-ordinating Committee of Options and Futures Exchanges.

The committee, which aims to ensure that derivatives receive attention in the financial services directives now being mapped out, meets in a few weeks to finalise its constitution. It will then recruit as members all EC derivatives exchanges.

Although officials in some European markets have recognised the importance of closer co-operation in Europe, Eccofex represents one of the few concrete steps to have been taken so far.

Mr David Burton, chairman of Liffe, told the Swiss Options and Financial Futures Investment Conference in Interlaken, Switzerland, last week that European futures and options exchanges would risk losing the initiative to American and Japanese competitors if they failed to co-operate with each other in regulatory and other matters.

However, co-operation on important technical issues was particularly sensitive. While exchanges often advised extensively and even shared in building embryonic ventures, once the market was established, working together became more problematic.

There were battles to be fought over systems, for example. The trading system which had developed, which combined elements of both open outcry and automated trading, "could bring separate European exchanges together," Mr Burton said.

Others think their systems are marketable too.

Mr Theodore Westerterp, president of the European Options Exchange, recently signed a letter of intent to buy a share in the Swedish Options and Futures Exchange, a deal that would include the purchase of its integrated trading system, SITS.

Mr Westerterp would then introduce SITS to the new Rotterdam oil exchange, with the French options exchange Monep another taker.

In a separate move, the EOE is developing a broad stock index based on the prices of some 200 companies across the EC, weighted according to both market capitalisation and gross national product.

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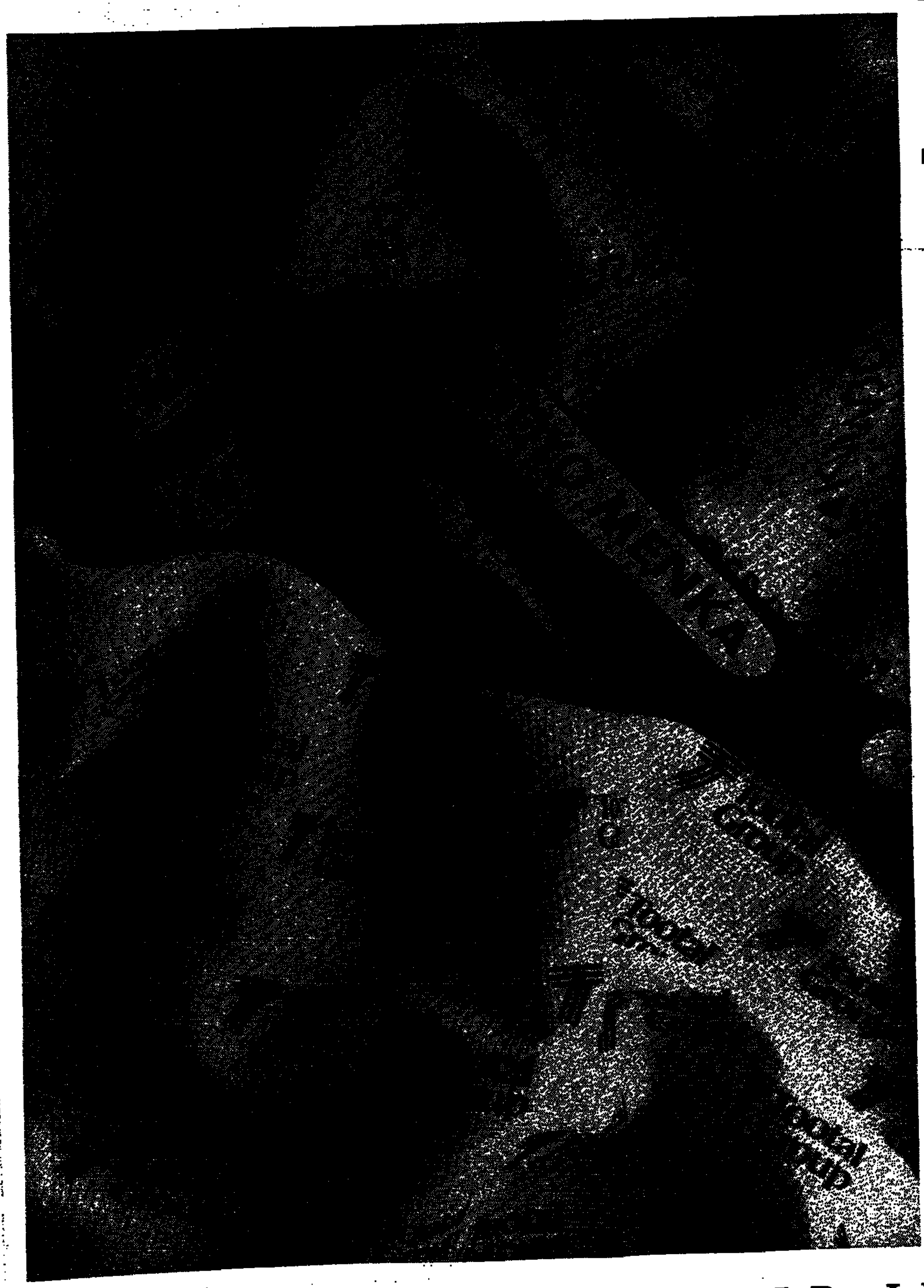

The fastest high quality fabric dyeing and distribution service in Europe will be provided by Dundee Textiles Ltd when its new fully computerised £16 million plant comes on stream in 1990. A joint venture by Tootal Group and Japanese textile groups Kurabo and Toyo Menka, the Dundee dye plant will incorporate the most sophisticated – and already tried and tested – Japanese technology. Providing an unrivalled combination of quality and fast response.

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

Analysts' trend-spotting leaves unpleasant taste in the mouth

THE GILT-EDGED securities market thought it saw a glimmer of light at the end of the tunnel last Thursday, but by Friday it could not quite make up its mind as to whether it was the headlight of a train or the hint of blue skies beyond.

The market has been wanting to act since it returned from the Christmas/New Year break. Spotting the turning point in the economy has become the most important thing for analysts to get right.

A hint of this imperative was seen just before Christmas when the weekly Banking Return appeared to indicate a slowdown in the growth rate of bank notes in circulation. The market moved ahead only to retreat on conflicting data from the same source a week later.

A similar pattern was observed last week. The market had a whiff of good news with the release of retail sales data for December earlier in the week. It was galvanised into action by the employment numbers and manufacturing output.

By midday on Friday, however, the market had developed a rather nasty taste in its mouth after the release of the Bank of England's December monetary numbers. Bank and building society lending was well in advance of expectations and unadjusted M0, at an annual rate of 8.5 per cent, added to uncertainty. Fourth-quarter consumer spending showed a smaller quarterly gain, although spending remained fairly robust.

Economic data on the UK continued to tell a mixed story, but the balance has tilted in favour of a slowing in the growth of consumer spending.

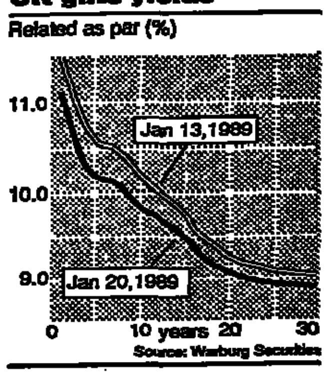
Assuming there are no upward revisions to the data, which is a large assumption, this moderation in spending can be seen in retail sales.

In the first quarter of 1988, retail sales volume was 7.8 per cent above the first quarter of the previous year; by the fourth quarter of last year it was 5.5 per cent above the level of a year earlier. The December bank lending data also appeared to support the view that consumer appetite for borrowing is waning.

Similarly, there are signs of

UK gilts yields

Related as par (%)



Source: Warburg Securities

a slowing in the rate of output growth. The Central Statistical Office's index of manufacturing output has been flat since the third quarter.

This should not be surprising given the slightly reduced pressure from the consumer and the squeeze being exerted by the exchange rate. The Treasury's Autumn Statement envisaged manufacturing output slowing to year-on-year growth of 4½ per cent this year compared with 1988.

But what the market would not want to see is a stagnation in output and the attendant worries that this might hold for the current account of the balance of payments. For the Treasury's forecast to hold, the CSO's index of manufacturing output would have to be about 119 in the fourth quarter, from a level of about 114 in the fourth quarter of 1988.

The employment data were taken by the market as a windfall but they had nothing to say about the future which everyone knows will be worse than the past. Underlying wage growth is set to rise when output growth will moderate and unit costs will rise.

All that the cold-comfort analysts appear to offer is that a relative shift in the share of national income from profits to wages can be accommodated because of the buoyancy of the former and that the Government's high exchange rate policy will prevent it from feeding through to recorded inflation.

Whether the market is as sanguine in the medium term is debatable. Few can see long-dated yields breaking out of the 9 per cent to 9.5 per cent trading range — the underlying inflation risk is the reason.

Mr Malcolm Roberts, of Salomon Brothers, points out as much when he compares conventional gilts with their index-linked cousins. Real yields at the longer end are about 3.75 per cent which, after an implied inflation rate of 5 per cent, return 8.75 per cent.

Without a downgrading of inflation expectations — which seems highly unlikely given the Government's past performance and the medium-term outlook — the resistance of the market to see long conventional move decisively below 9 per cent is understandable.

* * *

Mr Bill Martin and Mr Joe Roseman at Phillips & Drew have produced an interesting note on inflation, the retail prices index and the mortgage effect. Abstracting the effects of just the rise in mortgage interest rates (while including the effects of house prices) produces an underlying rate of inflation of 6.1 per cent to 6.5 per cent.

Simon Holberton

US MONEY AND CREDIT

Foreign exchange dealers regain initiative

LAST WEEK was the week when that inimitable breed, foreign exchange dealers, took over as they often have in the past.

The US currency used to be the main arbiter of economic policy in the grand old days of policy co-ordination — post-Plaza — and, after a dull 1988, has returned with a vengeance to the centre of attention, threatening a difficult policy juggling act.

At the beginning of the year, it seemed only logical to assume the dollar would come under downward pressure this year. Every factor was against the currency.

The economy is widely expected to succumb, at last, to the impact of a full 2 point tightening in 1988 of short-term interest rates.

When it does, the dollar should naturally begin to weaken to reflect slower growth and an easing by the Federal Reserve.

No currency can remain well bid, the argument goes, when a country is running a budget deficit measured in the hundreds of billions, a trade deficit running at between $10bn and $12bn a month and a financial system which has every sign of being chronically vulnerable.

However, the dollar has defied all expectations and, in the short term, there are several reasons why.

The answer lies in the firmness of near-term interest rates and the belief that the Fed will continue to raise rates as long as economic data suggest that domestic demand remains strong.

The rally on last week's trade figures was a reaction to evidence that the US consumer is continuing to suck in imports at a remarkable rate.

The financial markets plainly expect the central bank to act to tackle the trade deficit by squeezing demand, rather than acting on the price front by encouraging a further devaluation in the dollar.

A firmer dollar can also be viewed as a useful anti-inflation tool, to some extent acting as a substitute for higher US interest rates.

While the dollar is so well bid, there is little chance of the Fed raising interest rates again.

This would fly in the face of co-ordinated Group of Seven central bank intervention to hold the currency down, as well as last week's co-ordinated rise in European interest rates.

While there may be a certain usefulness about a firm dollar, it is not in the interests of any member of the G7, including the US, to allow foreign exchange dealers to run rampant.

Firstly, there is a risk the dollar will significantly erode US exporting power and boost imports when the Japanese and German trade surpluses appear to be getting bigger.

Secondly, West Germany in particular has made clear it has its own inflation problems and does not want the D-Mark to be nearly as weak as it now is.

Britain and Japan, too, are concerned about inflationary pressures, although Japan has remained studiously on the sidelines during the latest bout of dollar strength and has not taken part in the intervention.

The West German Lombard rate has been raised twice in as many months.

Last week, the rise was co-ordinated with policy tightening by other European central banks and this, coupled with repeated and concerted intervention, finally appeared to have had a dampening effect on dollar demand.

Weeks of speculation ended late last week when the G7 finally announced they would meet in Washington on February 3.

The continued desire for currency stability will, no doubt, be back at the centre of the agenda.

A useful pointer of how the Fed may react to the latest developments in the currency markets may come from this week's testimony to Congress by Mr Alan Greenspan, the Fed Chairman.

In spite of the dollar's strength, bets are that the Fed will maintain its current restrictive stance in order to pre-empt any substantial rise in inflation, its policy priority.

Last week, as euphoria reigned in US securities markets because of the dollar, oil prices jumped.

Although consumer prices data released during the week showed only a slight increase in inflation, higher labour costs have already boosted services inflation to 5.5 per cent, according to Salomon Brothers.

Mr Greenspan's Fed is clearly being assiduously vigilant about inflation — one reason for the confidence in the foreign exchange and bond markets.

Although renewed caution had crept into the bond market by the end of last week, Treasuries do, to some extent, appear to be discounting a soft landing in the economy.

Another strand of optimism — most often expressed in Europe but already a subject of some discussion in the US — has also seeped into dealings. There is a vague belief that the Administration will deliver a credible budget deficit-cutting package in mid-February, when President Bush presents his first budget.

This seems pretty far-fetched and any proposals would have to run the gamut of Congressional committees before any concrete agreement could be thrashed out.

The cuts needed to meet the requirements of Gramm-Rudman-Hollings are, anyway, trivial compared with the gargantuan sums which independent analysts agree will have to be spent over the next few years to save the thrift industry and bring military installations up to date.

Nevertheless, there does seem to be a faction in the markets which believes it may be possible that a decent package could avoid a fiscal crisis, at least this year.

Mr Richard Darman, new head of the Office of Management and Budget, is accorded something approaching an awed respect on Wall Street.

He was quoted last week in an interview with the Bureau of International Affairs as saying that the new President's stance against higher taxes "does not mean that all increases in government revenues are new taxes."

The Administration has said it is not scared of automatic sequestration under Gramm-Rudman and the possibility of large military cuts have been tantalising close ever since the visit to the United Nations of Mr Mikhail Gorbachev, the Soviet leader.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.13	9.08	8.87	9.20	6.27
Three-month Treasury bills	8.24	8.48	8.45	8.52	6.21
Six-month Treasury bills	8.26	8.78	8.67	8.87	5.73
Three-month prime CDs	9.17	9.25	9.35	9.35	6.77
30-day Commercial Paper	8.93	9.80	9.45	9.45	6.65
90-day Commercial Paper	8.98	8.05	9.18	9.18	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98¾	-¼	9.07	9.10	9.19
20-year Treasury	96¼	-¼	9.05	8.97	9.12
30-year Treasury	101⅛	-⅛	8.88	8.88	9.05

Source: Salomon Bros (estimates).

Money supply: In the week ended January 9 seasonally adjusted M1 money supply fell $7.7bn to $785.4bn.

NRI TOKYO BOND INDEX

December 1983 = 100	19/1/89	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	148.6	4.56	148.9	146.58	143.22
Government Bonds	149.31	4.25	149.82	147.66	143.11
Municipal Bonds	150.74	4.82	150.72	147.94	145.60
Govt.-guaranteed Bonds	151.78	4.86	151.69	149.11	147.11
Bank Debentures	141.34	4.53	141.43	140.00	137.53
Corporate Bonds	148.40	5.36	148.22	146.15	144.05
Yen-denom. Foreign Bonds	151.93	6.16	151.74	149.21	146.12
Government 10-year†	4.89	n/a	4.81	4.88	5.25

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on JANUARY 21

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

UK mortgage lender leaps loan hurdle

WHEN National Home Loans, the UK mortgage lender, cast about for ways to diversify its short-term borrowings, it ran up against several obstacles.

For one thing, the company wished to take some of its mortgages off balance sheets, so that an asset-backed structure seemed best. But the company has already issued several asset-backed floating-rate notes and it wished to avoid saturating the market.

In addition, NHL wanted to expand US borrowings where rates on commercial paper are lower than in the UK. But it does not have a rating from any agency and CP is virtually impossible to issue in the US without one. Besides, ultimately NHL needs sterling, not dollars.

However, the company, working with Financial Security Assurance, a AAA-rated financial guarantee company and S.G. Warburg, devised a novel structure that will allow it to get around the obstacles and raise funds at a rate roughly comparable to that on sterling FRNs.

NHL is raising about $460m in US commercial paper via two special-purpose US companies, FSA Beta and FSA Delta, which carry the AAA rating of FSA.

These in turn swap the funds into sterling, lending them on to two UK companies, NHL-1 and NHL-2. The assets of these two companies consist of UK home mortgages purchased from NHL and thus removed from its balance sheet.

NHL-1 and NHL-2 pay for the mortgages with cash flows of interest and principal from the portfolios they hold.

Mr Nigel Terrington, finance director at NHL, said that while the company would not have to follow the same capital to asset ratios as banks, the company had gearing ratios set by its bank lenders. Keeping assets off balance sheet meant it could turn to its bank lenders for more funds, if necessary.

Mr Buck Burnaman, head of FSA's UK operations, said the all-in cost of funds to NHL was about ⅛ over London interbank offered rates, roughly equal that of issuing mortgage-backed FRNs via special-purpose companies.

Daiwa Europe, meanwhile, has opted to tap the Euromarkets for commercial paper, becoming the first Japanese securities house to do so. It has established a $500m Euro-CP programme with a multi-currency option allowing it to raise funds in yen or Ecu as well as dollars. Daiwa is still seeking a CP rating but long-term debt is rated AA/AA2.

UK corporates are back in the market after the Christmas holiday lull.

Next, the UK clothing retailer, and Mecca Leisure, the gaming and entertainment group, have managed to achieve identical terms on their respective multiple option facilities. Arrangers for the two loans are Barclays de Zoete Wedd and National Westminster Bank.

Both loans carry a margin of 12½ basis points, an underwriting fee of 7 basis points and a 2½ basis point utilisation fee if the facility is 50 per cent or more drawn. There are participation fees on both facilities, neither of which is disclosed.

Standard Chartered said its syndication of BPCC's £197m financing for a management buy-out from Maxwell Communications Corp is proceeding well and should be completed by the end of this week. The loan was underwritten in early December but Standard Chartered said it had postponed syndication pending approval from MCC shareholders for the transaction.

Bank of America will be launching a deal later this week for Signal Capital Corp, a US borrower.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	534.3	30.0	0.0	12,279.0
Prev	1,626.2	0.0	262.7	12,421.5
Other	2,790.1	265.3	100.4	1,902.8
Prev	3,218.0	230.0	106.0	2,833.5
Secondary Market				
US$	8,861.1	1,241.8	6,226.0	6,630.4
Prev	5,859.7	749.0	3,055.1	5,535.6
Other	17,372.4	1,403.3	6,148.6	24,632.6
Prev	11,045.6	880.6	3,932.8	13,412.4

	Cedel	Euroclear	Total
US$	8,849.7	26,932.9	35,782.6
Prev	8,512.2	20,997.6	29,509.8
Other	24,584.0	30,051.5	54,635.5
Prev	14,745.8	20,913.1	35,658.9

Week to January 19, 1989 Source: AIBD

INTERNATIONAL BONDS

New-year surge keeps spotlight on Canadian $ sector

CANADIAN dollar Eurobonds have long been identified primarily with the high coupons paid by borrowers. The astonishing pace of new issues in the first weeks of this year has focused attention on a market sector that many believe has come of age.

Some C$3.2bn of paper has been issued this month – representing 20 per cent of the total for all of 1988, when C$16.2bn was brought to the market.

As the chart shows, the sector's share of new issue volume increased significantly last year, to the extent that many players felt 1988 was a freak.

Lead managers have consequently been amazed by 1989's heavy activity and expect an inevitable slowdown while the paper is absorbed. However, talk of a glut of unsold bonds overhanging the market has to be put into context.

Mr Roger Pace, of issuing house Scotia Mcleod, says: "There is some indigestion, but given the circumstances that's hardly surprising. Really it's unbelievable that so much paper has gone so well."

A good measure of the sector's strength is that even the few issues judged as tightly priced at launch are trading on or within fees.

For example, an issue of C$100m two-year bonds for BNL Overseas Finance had a slow reception, due to the unfamiliarity of the borrower's name and the timing of a similar deal for the European Community, but is trading at a discount just equivalent to fees.

Most of this year's issues are performing well, supported by Continental retail demand for high coupons and by the buoyant performance of the Canadian domestic bond market.

Lead managers point out that a domestic rally has two key effects on C$-denominated Eurobonds. In trading terms, rising new issue prices look good in relation to fees and give the deals the appearance of success.

From the borrower's point of view, however, interest rate spreads of the Eurobonds over government bonds widen, making swaps less attractive for non-Canadian issuers and increasing the relative attraction of the domestic market for Canadian borrowers.

The unusually heavy issue volume has exacerbated these effects. Spreads over government bonds on some issues have widened quite sharply. The Caisse Centrale Désjardins de Québec 11⅛ per cent issue due 1994, for example, was launched at around 50 basis points over government bonds, but was trading on Friday at nearer 78 basis points.

The Province of Alberta 10⅜ per cent bonds of 1994, seen as a benchmark by traders, were launched at a spread of around 27 over governments which had widened to 32 by Friday.

The increasing role of professional spread traders in the Canadian sector is not to be under-estimated.

Issuing houses use a rule of thumb that the typical Euro-Canadian bond trades eight times before it is finally placed.

Much of that turnover is accounted for by traders who buy the Eurobonds, sell government bonds to lock in a spread and wait for the tighter spreads that accompany retail demand before reversing the position and taking profits.

This well-established technique is compromised when government markets move as strongly as they have recently.

Further, many spread traders have reached their position limits during the recent rush of paper and are now unable to help reduce the oversupply. Their role as effective underwriters is said to have helped lead managers increase the average size of issues.

It is currently on hold, however, as traders foresee little prospect of spreads tightening in their favour.

The Canadian domestic market tracks the US Treasury market closely and has benefited from its recent strength, stimulated by the upturn in the fortunes of the US dollar. Also important has been the rise of the Canadian dollar against European currencies, notably the D-Mark and the Swiss franc.

The benchmark 10¼ per cent February 1994 Canadian government issue yielded 10.37 per cent on a semi-annual basis on January 10 and now yields 10.21 per cent.

Like the bond market, the Canadian dollar generally tracks its US counterpart, but this year it has out-performed it, strengthened by an economy judged fundamentally sound.

The combination of a tight monetary policy, reasonable growth prospects and the passage of the Free Trade bill makes an attractive picture, although economists sound a cautionary note over Canada's budget deficit.

The federal budget, likely to be announced in late February, will be an important indicator – "make or break time for the Canadian market," according to Midland Montagu Research.

On the back of the Canadian dollar's strength, sophisticated Continental investors have indulged in some profit-taking. The bulk of European investors, however, buy the paper mainly for the coupon.

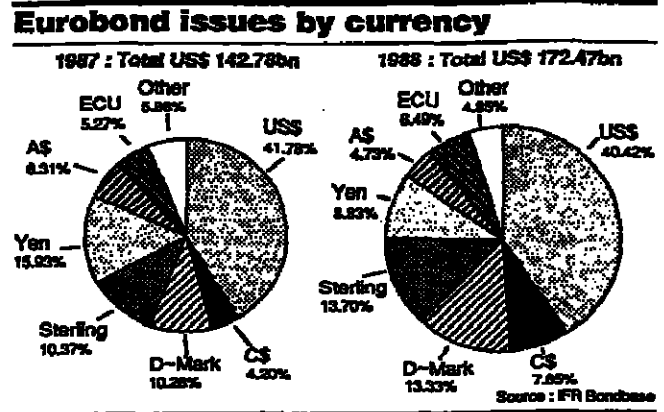
For lead managers, this is just as well. Prospects for immediate further C$-denominated issues have receded, leading to greater pressure on recent issues to perform. Moreover, it is far from clear in the current volatile market conditions where the next round of issues will come from. In particular, declining swap rates have made the sector less attractive for non-Canadian borrowers.

Post-swap funding rates of between Libor less 25 and Libor less 40 have been common, but narrowing rates have reduced funding advantages by 5 to 10 basis points across the yield spectrum. Coupled with widening spreads this is enough to put off many swap-driven issuers.

One possibility is that borrowers will issue longer-dated Eurobonds aimed more at professional money managers than at retail investors. As the idea of long-dated issues becomes increasingly acceptable and existing bonds demonstrate good levels of liquidity, more borrowers might be tempted to tap the 10-year area.

Andrew Freeman

Eurobond issues by currency



Source: IFR Bondbase

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Forestry†♦	150	1993	4	4⅜	100	Daiwa Europe	4.375
Sumitomo Chemical†♦	400	1993	4	4⅛	100	Nomura Int.	4.125
Daishowa Paper Mnf.†♦	100	1993	4	4⅜	100	Nikko Secs. (Europe)	4.375
Italy, Republic of♦	1bn	1999	10	9⅝	101⅝	J.P. Morgan Secs.	9.368
Norsk Hydro♦	150	1995	6	9⅞	101⅞	Goldman Sachs Int.	9.451
Mitsui & Co.†	1bn	1993	4	(4½)	100	Nomura Int.	★
Hanwa Co.†	700	1993	4	(4⅝)	100	Yamaichi Int. (Eur)	★
Mitsubishi Oil Co.†	250	1993	4	(4½)	100	Nikko Secs (Europe)	★
Hankyu Dept. Stores†	200	1993	4	(4⅝)	100	Daiwa Europe	★
Nakayama Steel Works†	150	1993	4	(4⅝)	100	Nomura Int.	★
Ford Motor Credit♦	200	1996	7	9⅝	101.425	Nomura Int.	9.339
Swedish Export Credit♦	150	1990	1	9½	100.85	Yamaichi Int. (Eur)	8.577
Electrolux♦	100	1996	7	10	101¾	CSFB	9.645
Sanshin Electronics†	40	1993	4	(5⅛)	100	Daiwa Europe	★
OKOBANK♦	100	1992	3	9⅝	101⅜	IBJ Int.	9.081
CANADIAN DOLLARS							
Swedish Export Cr.(a)♦	150	1990	1	12	101½	Bankers Trust Int.	10.345
Household Finance♦	75	1994	5	11¼	101⅞	UBS (Secs)	10.746
Nippon Tel. & Tel.♦	200	1996	7	10⅝	101¼	Bqe Paribas Cap.Mkts	10.365
Royal Tst Mortgage(b)♦	100	1994	5	10⅞	101⅝	Shearson L'man Hutton	10.441
EEC♦	80	1991	2	11¼	101.55	Chase Inv. Bank	10.353
Bacob Finance NV♦	75	1991	2	11½	101½	Merrill Lynch	10.628
WestLB Int.(Lux'bourg)♦	100	1996	7	0	50.47	WestLB	10.261
AUSTRALIAN DOLLARS							
Toronto-Dominion Bank♦	50	1992	3	14⅞	101¾	Westpac Banking Corp.	14.120
Fin. Co. Sth Australia♦	50	1991	2	15¼	101.70	CCF	14.708
Royal Trust Corp.♦	75	1992	3	14⅞	101½	Algemene Bk Nederland	14.226
ICI♦	100	1992	3	15	101⅜	J.P. Morgan Secs.	14.404
NEW ZEALAND DOLLARS							
Dresdner Sth-East Asia♦	50	1992	3	14⅛	101⅝	Dresdner Bank	13.432
D-MARKS							
Spar Int. Fin.♦	60	1996	7	6½	100	DG Bank	6.500
Iceland, Republic of♦	150	1999	10	6⅝	101	WestLB	6.486
SWISS FRANCS							
Tsuzuki Denki Co.★★§♦	60	1993	-	½	100	Credit Suisse	0.500
Kanagawa Chuo Kotsu★★♦	40	1994	-	5	100¾	IBJ (Switz)	4.828
Polly Peck Int. Fin.♦	100	1996	-	6¼	100	S.G. Warburg Soditic	6.250
Thomson-Brandt(c)†♦	200	1999	-	2½	100	UBS	2.500
Japan Radio Co.★★§	100	1993	-	(½)	100	Credit Suisse	★
Sogo Denki Co.★★♦	60	1994	-	5	100⅝	Handelsbank NatWest	4.856
Art Moving Center★★♦	10	1994	-	5	100⅝	Fuji Bank (Schweiz)	4.856
STERLING							
EIB (d)♦	100	1997	8	10	97⅞	Samuel Montagu	10.404
FRENCH FRANCS							
Pernod Ricard♦	500	1994	5	8¾	101¼	Societe Generale	8.433
ECUs							
EEC♦	25	1991	2½	8	100½	Cie Monegasque de Bqe	7.738
YEN							
Soc.Quebecoise D'Ass.♦	10bn	1994	5	7	111½	Mitsui Finance	4.389

★Not yet priced. ★★Private placement. †With equity warrants. ‡Floating rate notes. §Convertible. ♦Final terms. a) Currency-linked. Redemption in either C$ or US$ at issuer's option. b) Backed by C$150m of mortgages. c) Warrant exercise period 4 years. d) Fungible with issue launched in October 1988. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

Setting out to produce the indispensable widget

Richard Tomkins charts the impressive growth at Concentric since Tony Firth became chairman

Tony Firth, chairman of Concentric, the Birmingham-based engineering group, is a tough, gruff Yorkshireman who suffers fools badly. He is weary of explaining why his company has recorded compound annual pre-tax profits growth of 37 per cent over the last five years, and instead seizes upon an analogy.

"Just suppose you want to start making nuts and bolts," he says. "You can go out and buy the plant for making nuts and bolts, but if you do, yours will be the same as everybody else's. And then what are you selling? Nothing more than the ability to buy a machine that makes nuts and bolts."

"We bring a lot more to the deal than that," says Mr Firth. "We're proud of our strong engineering base. We offer originality, inventiveness, creativity. This is not straight labour: this is thinking."

In other words, Concentric makes the better widget. Or at least it says it does: but if the profits record is any guide, its customers agree. The latest figures show sales ahead 36 per cent to £88m and pre-tax profits up 22 per cent to £6.3m in the year to September 1988.

Brummie metal-bashers rarely hold high profiles, and Concentric is no exception. But interest in the company has been stirred, albeit quietly, by news that it has landed the contract to manufacture Amstrad satellite dishes for receiving Mr Rupert Murdoch's Sky Television service, due to start broadcasting in a fortnight.

About 1m of the dishes - developed in-house - are due to come out of the Concentric (Pressed Products) subsidiary in Handsworth during 1989. But Mr. Firth plays down the significance of the deal. The dishes are just one product coming out of one subsidiary among 14, he says. Its impact on group profits will be small.

He is happier talking about the rest of group's output, but the description would fill a book. In many ways typical of Birmingham metal-bashers, Concentric turns out a bizarre range of engineered goods that leaves the observer struggling to detect industrial logic.

If the company is known at all outside industry, it is probably for its Concentric Controls subsidiary which dominates the UK market for valves, controls and regulators used in household gas appliances. In most British homes, the meter under the stairs has Concentric's name on the regulator.

Tony Firth: proud of his group's strong engineering base.

For Pressed Products, meanwhile, the manufacture of satellite dishes is a sideline. Most of the output pouring from its Handsworth factory goes to the European automotive industry: nearly all the big motor manufacturers are buying its chassis parts, suspension arms, bumper bars and the like.

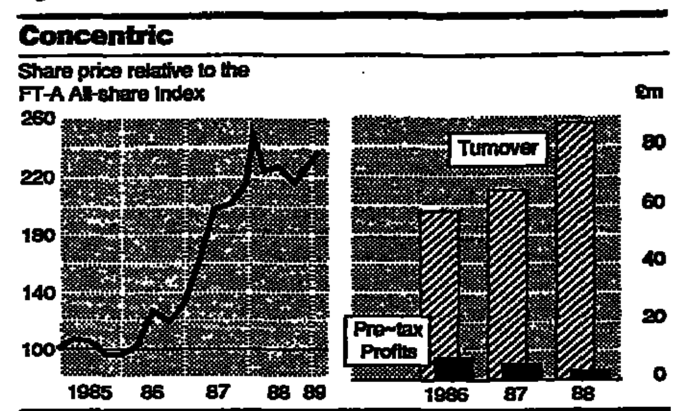
Of all the subsidiaries, Concentric Pumps, lying in the shadow of Birmingham's Spaghetti Junction, was the biggest contributor to sales last year. This is the world's leading supplier of oil and water pumps to the diesel engine industry.

Other offshoots make plastic moulds used in chocolate factories, automatic fluid control valves, pressure and temperature switches for process industries, and brakes and clutches for racing cars. The Norton Aluminium Products subsidiary operates a big aluminium refinery.

Mr Firth, promoted to chairman in 1981 when Concentric was at its recession-stricken nadir, describes the logic behind the group in terms of pre-eminence in growth markets: but his explanation of the underlying philosophy is more compelling.

In essence, it is to make the group indispensable to its customers by engineering products that no one else can match.

"When demand is high, everybody's busy, but when there's a downturn, the secondary and tertiary suppliers tend to get squeezed out. If you are an important supplier to your customer, you are still going to be around," he says.



This commitment to the better widget is more than just flannel. It is visible in a remarkable (for Birmingham) training programme that will take up to 50 per cent of Concentric's 2,100 employees through some form of recognised instruction this year. More evidence is the size of the company's investment in up-to-date plant, robotics, quality control and CAD-CAM design - £4.7m last year and perhaps double that in 1989.

It has to be said that luck has played a part in Concentric's advance. Heavily exposed to the automotive industry, it has profited from booming car sales and from the European motor manufacturers' recent tendency to source from low-cost UK suppliers.

How much luck, though, it is hard to say. Mr Firth is notoriously tight-lipped when it comes to analysis of profits or margins. When skilfull deflection on to another topic fails, his characteristic foil is to utter bluntly: "If I told you that, you'd know as much as I do."

But he argues that Concentric's competitiveness means it will be the last supplier to lose orders in the event of a severe automotive industry downturn. And meanwhile it is expanding in other directions - notably overseas, with exports taking 22 per cent of sales last year.

Mr Firth verges on the heretical when it comes to 1992. ("I'm not terribly interested in it, to tell you the truth.") But that is only because Concentric is ahead of the game. It set up a base in the US in 1984 and opened another in Paris last year. An office will open in West Germany this year and others are likely to follow in Italy and Spain.

"These are not just sales offices," he says. "They offer comfort to our customers because they mean negotiations can be conducted in their own language and according to their own law, people can be billed in their own currency, they can pick up a phone and talk to someone in their own country."

Mr Firth's character is stamped so firmly on Concentric that it is tempting to see the group as a one-man band. It is a suggestion he hotly denies. Subsidiaries trade as independent companies with good managers operating without interference from the top, he says.

"If I went around telling my managers what to do all the time, what would be left for them to do?" he asks. "Mine's just a consultative role."

A pause.

"Mind you," he reflects, a rare smile lighting up his face, "I can be very persuasive."

Pension sales boost for Allied Dunbar

By Eric Short, Pensions Correspondent

RECORD PENSION sales by Allied Dunbar last year led the way to excellent results with new annual premiums up by a third to £181m and single premiums, excluding unit trusts, also up by a third to £202m.

The group markets primarily through its own tied sales force, which was expanded by 13 per cent to 4,500 associates during the year. The increase, at a time when competitors were struggling to maintain numbers, was a dominant factor in the buoyant new business results.

Conditions in 1988 were extremely favourable for pension business as a result of the changes introduced by the Government.

The new style personal pensions came into being from July, and there was a boom in retirement annuity contracts to the self-employed ahead of their replacement by personal pensions.

New annual pension premiums rose by 41 per cent to £119m and single premiums by more than 80 per cent to £71m, making Allied Dunbar, a BAT Industries subsidiary, one of the largest pension companies in the UK.

The group maintained its position as Britain's largest linked-life company, with annual premium sales up by a quarter to £62m and life and annuity single premiums up 17 per cent to £131m. The buoyant annual premium figures reflected the good sales of its adaptable endowment plan, up 28 per cent to £27m.

Direct unit trust sales in 1988 were down by two-thirds to £174m, in line with the industry experience. The Homeloan Service showed new mortgage advances more than double at £649m, bringing total advances since the service started three years ago to almost £1bn.

GT Venture £20m acquisition

By Charles Batchelor

GT VENTURE Investment Company has acquired the venture capital portfolio of The Water Authorities Superannuation Fund for £19.7m. This is GT Venture's first major purchase of venture capital since it was set up 16 months ago with the aim of buying unwanted portfolios from large institutional investors.

Its shares, which were suspended at 73p each in November pending final agreement with the water authorities fund, are due to be re-listed today.

GT felt there was a need for a specialised fund to buy the portfolios of unquoted investments which were too troublesome and time consuming for the institutions to manage alongside their much larger portfolios of quoted stocks.

However, the stock market crash of October 1987 came one month after GT obtained a listing and it has taken much longer to put deals together than originally thought, according to Mr Rhoddy Swire, managing director.

It has taken seven months to reach agreement with the water authorities fund to buy its holdings in 27 venture capital funds which are invested in a total of 850 companies, 663 of which are unquoted. Ten of the funds invest mainly in the UK, 15 in the US and two in Japan.

The reason for the lengthy negotiations was the complexity of tax legislation covering the investments, which had been made in 10 different tax jurisdictions, and the need to unravel questions such as the transferibility of ownership.

GT is paying for the portfolio by issuing 1.5m new 50p ordinary shares at 90p each, worth £1.35m, and £18.35m convertible redeemable unsecured loan stock 1999 at par.

When GT came to the stock market it announced plans to buy three unquoted company portfolios valued at £21m. This fell through, however, following the market crash and failure to agree on a valuation.

Since then GT has invested a total of £4m in a number of small portfolios. In July 1988 GT Venture Management, which manages GT's assets, staged a management buy-out from GT Management, the quoted financial services group, which left its own management with a 30 per cent stake, Thomson Clive & Partners, another venture capital group, with 35 per cent and GT Management with 35 per cent.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Bardon Group (Section: Industrials).

Betacom (Electricals).

Cable & Wireless 7% Cv. Uns. Ln. 2008 (Electricals).

Dawsongroup (Industrials).

Embassy Property Group (Property).

English & Caledonia Inv. (Trusts, Finance, Land).

Planning Research & Systems (Newspapers).

Venture Plant Group (Buildings).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Applied Holographics, Dyson (J & J), Gibbs Mew, Kenyon Securities, Lebowa Platinum Mines, Menvier Swain, Prism Leisure, Rustenburg Platinum, Shelton (Martin).
Finals- Acola, Central Motor Auction, Soundtrace.

FUTURE DATES

Interims-	
BOC	Feb. 2
Bailey (CH)	Jan. 31
Bristol Channel Ship	Jan. 31
Gibbs Mew	Jan. 23
Park Food	Jan. 26
Pathfinders	Jan. 24
YRM	Feb. 2
Finals-	
Commercial Union	Mar. 1
Derby Trust	Jan. 26
Laing Properties	Mar. 21
Ocean Wilsons	Jan. 26
Palma	Mar. 14
Saga	Jan. 25
Securiguard	Jan. 31
TR Pacific Inv Tst	Feb. 13
Telecomputing	Jan. 27
Vickers	Feb. 20
Whitegate Leisure	Jan. 27

FINANCIAL TIMES STOCK INDICES

	Jan. 20	Jan. 19	Jan. 18	Jan. 17	Jan. 16	Jan. 13	1988/89 High	Low	Since Compilation High	Low
Government Secs.	88.15	88.08	87.54	87.54	87.62	87.01	91.43	86.18	127.4	49.18
Fixed Interest	96.92	96.84	96.71	96.53	96.53	96.51	98.67	94.14	105.4	50.53
Ordinary	1563.3	1556.2	1540.0	1521.3	1525.1	1519.7	1563.5	1349.0	1926.2	49.4
Gold Mines	164.3	163.0	162.8	164.8	165.4	163.9	312.5	160.7	734.7	43.5
FT-Act All Share	988.99	985.45	976.01	965.01	966.78	961.80	988.99	870.19	1238.57	61.92
FT-SE 100	1917.5	1910.8	1892.1	1867.7	1871.8	1862.1	1920.2	1694.5	2443.4	986.9

UK COMPANY NEWS

First Technology misled by the Takeover Panel

By Andrew Hill

FIRST TECHNOLOGY, the security and safety systems manufacturer, inadvertently broke the Takeover Code in the build-up to launching Friday's hostile bid for Ricardo Group, the designer and manufacturer of engines and transmission systems, having been misled by the Takeover Panel.

The panel had to ask First Technology to tear up irrevocable acceptances representing 13 per cent of Ricardo's shares, after Ricardo's adviser, J. Henry Schroder Wagg, pointed out that the predator had built up support faster than permitted under the code. All the shareholders concerned – including UEI, the high technology engineering and electronics group, which owns 4.9 per cent of Ricardo, and CH Industrials, another specialist engineer, with 6.3 per cent – later completed new irrevocable undertakings to accept the £19.7m all-shares offer for the same number of shares.

The hitch enabled the Ricardo camp to speak to UEI and CH, in an attempt to find out why they had committed themselves to the unwelcome offer and to tell them they were under no legal obligation to sign the new irrevocable undertakings. The substantial acquisition rules of the Takeover Code prevent investors buying more than 15 per cent of a target before an offer is announced, except at the rate of 10 per cent a week.

First Technology, which increased its 4.9 per cent stake in Ricardo to 14.9 per cent in the few days before the bid, was wrongly advised by the panel that receiving irrevocable acceptances before announcing the offer would not breach the code.

Parkdale plans £12m development

By Andrew Hill

PARKDALE HOLDINGS, the property and leisure group headed by Sir Peter Parker, former chairman of British Rail, has bought part of the Rushmore Estate, near Salisbury, for a hotel, golf course and leisure centre development which should cost up to £12m.

Last February, Parkdale bought Clifford Barnett, a leisure development specialist, and in a similar deal, announced in September, acquired most of the Archerfield Estate, next to Muirfield golf course.

The Rushmore development, to be carried out with a joint venture partner, will include a 100-bedroom country club, an 18-hole championship-standard golf course and a leisure centre.

Crown juggles radio stakes

By Fiona Thompson

CROWN Communications, the USM-quoted film, video and television production specialist, has made a number of disposals and acquisitions of commercial radio stakes.

It has sold 642,240 shares in Manchester's Piccadilly Radio for £1.42m, cutting its stake in the non-voting shares by one third to 16.06 per cent. It has also disposed of for £1.51m its 80.6 per cent holding in Beacon Radio in Wolverhampton.

The shareholding in Radio Mercury (Reigate) has been increased to 29.9 per cent and it has taken up its full entitlement under rights issues of Southern Sound (Brighton) and Radio Forth (Edinburgh). Crown now holds 24 per cent of Southern and 29.9 per cent of Forth.

At Radio Trent (Nottingham) recent purchases have given Crown a 22.1 per cent stake.

Total cost of the purchases was £1.19m. Mr Brian Wallis, finance director, said all the stakes were trade investments.

Mr Christopher Chataway, chairman, said in respect of Piccadilly and Beacon offers considered attractive were accepted. The further investments have reinforced Crown's commitment to certain "particularly promising" areas.

Lord Young expected to get Minorco report today

THE MONOPOLIES and Mergers Commission is today expected to deliver its report on Minorco's £2.9bn hostile bid for Consolidated Gold Fields, the UK-based diversified mining group, to Lord Young, the Trade and Industry Secretary.

He has no statutory duty to publish the MMC report on the bid by the South African-controlled investment company within a fixed time limit. Usually there are about 21 days between the report reaching the Secretary of State and its publication.

However, Lord Young has been under political pressure – most recently in the House of Lords on Friday – to hold up publication until he has seen the results of the inquiry by his department's inspectors into possible insider trading in Gold Fields' shares in the six months leading up to the Minorco bid.

Samuel Heath

Samuel Heath & Sons, the giftware and hardware manfacturer, raised pre-tax profits by £19,000 to £255,000 for the six months to end-September. Turnover was £3.28m, against £2.95m. The interim dividend is a same-again 1p.

AB Foods has 2% of UB

By Andrew Hill

SIR HECTOR LAING confirmed yesterday that Associated British Foods, the milling and baking company, owns a 2.1 per cent stake in United Biscuits, the snack foods and restaurant group, of which he is chairman.

The stake, worth about £27m at current market prices, has been held since August through nominees, but Sir Hector said he thought ABF, which is headed by Mr Garry Weston, regarded it as a trade investment.

UB's share price has been buoyant since the beginning of the new year, and there has been speculation about a possible bid from Jacobs Suchard, the Swiss confectionery group.

ABF also holds a 24 per cent stake in S & W Berisford, the sugar producer and commodities dealer, following a bid for the company which was abandoned after the stock market crash in October 1987. The milling group is likely to compete with UB, Northern Foods and continental European rivals in the forthcoming auction for the RJR Nabisco's European biscuit and snack foods businesses.

CONSTRUCTION CONTRACTS

Building at record levels

By Andrew Taylor, Construction Correspondent

There is no sign yet of any major collapse in construction contracts despite the adverse effect of higher interest rates on new housebuilding, according to the latest survey of orders to quantity surveyors.

Contracts to quantity surveyors are generally placed early in the development cycle and therefore provide a reasonable guide to future workloads for the industry as a whole.

Figures produced by the Royal Institution of Chartered Surveyors show that the value of contracts placed with British quantity surveyors last autumn were almost a fifth higher than during the same period in 1987.

The survey supports recent forecasts which suggest UK construction output is likely to rise by a further three per cent to four per cent this year following increases of approaching 10 per cent last year and eight per cent during 1987.

UK construction output is at its highest level since World War II and has risen in every year since 1981, according Cambridge Econometrics, a leading forecaster.

The Royal Institution of Chartered Surveyors, however, warned that the rise in orders placed with quantity surveyors may in part be due to the bringing forward of contracts to beat the deadline for the introduction of value added tax on new construction work in April.

A more recent survey of construction contracts by the Royal Institute of British Architects showed that new commissions placed with architects have slipped recently.

Quantity surveyors, however, say they have continued to benefit from increased orders from private sector commercial and industrial developers.

The value of orders from commercial developers last autumn were 23 per cent higher than in the corresponding period in 1987. Private industrial orders were almost 14 per cent higher.

Orders arising from new housing developments fell sharply. Independent firms of quantity surveyors, from which the institution's survey was compiled, do little for the large volume housebuilders, working mostly for small local builders.

The survey, nonetheless, highlights the current concern about prospects for sales of new houses this year following sharp rises in mortgage interest rates last autumn and again this month.

Sales in south east England fell sharply in September and October but recovered a little in the run-up to Christmas, often the most difficult months for sales, say housebuilders.

Resurfacing runway for the RAF

ARC CONSTRUCTION has won contracts worth over £24m. The largest, valued at £16.2m, is for paving works at RAF Brize Norton in Oxfordshire for the Property Services Agency. The work includes renovation and resurfacing of the main runway, taxiways and hard standings, where 60,000 tonnes of asphalt and 50,000 cu metres of concrete will be placed.

Other contracts include construction of a £5.3m road/rail stabling area for the PSA at the ordnance depot at Kineton, Warwickshire and construction of the 0.7km A336 Wantage link road for Oxfordshire County Council, worth £1.2m.

ARC Construction is also providing an £800,000 map store building for the PSA at Hermitage, near Newbury, and carrying out an £800,000 infrastructure contract for sister company ARC Properties' industrial development at Harlow, Essex.

Rebuilding Carsington dam

SHEPHARD, HILL & CO has marked the start of 1989 by winning three civil engineering contracts worth a total of £37m.

Next month will herald Shephard Hill's return to Carsington in Derbyshire to embark on the reconstruction of the clay core dam that has been re-designed by Glasgow consulting engineers Babtie Shaw and Morton for Severn Trent Water. Work on the £17.8m contract is scheduled to be completed in the Autumn of 1992.

Shephard Hill of Hillingdon, Middlesex, was the contractor for the original Carsington dam which collapsed during construction in June 1984.

Severn Trent Water has also accepted Shephard Hill's tender of £6.47m for major repairs to the embankments of Draycote Reservoir near Rugby. Binnie & Partners' design calls for the supply of 250,000 cu metres of sands, gravels and crushed rock during the next three years.

Shephard Hill's third award, worth £12.78m, is for a 130 metre long concrete barrage across the mouth of the River Tawe at Swansea. A lock, a fish pass, two overflow weirs and a reinforced concrete pumping station are all included in the scheme that W.S. Atkins & Partners has prepared for the City Council.

By February 1992 the people of Swansea will have at their disposal a substantial area of water suitable for sailing and other leisure pursuits.

Office project in Coventry

COSTAIN CONSTRUCTION has been awarded a £5.55m contract by Friars House Investments for the construction of an office development, Friars House, at Warwick Road, Coventry. The site of the proposed works occupies a prime location in the city centre adjacent to Coventry's ring road.

The contract comprises a total floor area of 7,900 sq metres consisting of ten floors of office accommodation and ground level parking. The building will be constructed on reinforced concrete pad and column foundations and the superstructure comprises a reinforced concrete frame consisting of columns designed to a 5.4 metre grid with waffle panel floors and roof. The contract is scheduled for completion by December.

Fleet Street office development

STENT FOUNDATIONS has received contract awards valued at over £5m. Goldman Sachs, the New York financier, has instructed Taylor Woodrow Management to place an order with Stent Foundations for piling works at its headquarters in Fleet Street.

The site to be developed is the old Daily Telegraph offices and the contract includes the construction of a number of under reamed piles with 2.1 metre diameter shafts, expanded at the base to 5.7 metres. The height of the belling tool will be 7 metres. These are probably the largest belled piles ever constructed in the UK. The value of the contract is £2.5m and commences in early February 1989.

In the City, Stent has been awarded a £850,000 piling contract at Gresham Street, a development for Land Securities, and a piling contract, valued at £630,000 for the redevelopment of 100 St. Martins Lane, WC2.

Roadworks have not been neglected, and an order for piling valued at £720,000, at the A3 Stag Lane underpass, Kingston Vale, for Balfour Beatty Construction, has been received.

Local to its Hook, Hampshire, headquarters, Stent has also secured a contract, valued at £115,000, from Rockfort Land for a development in the town centre at Midpoint. Stent's joint venture with Soletanche also continues to grow and the Burton Property Group has awarded a £1.85m contract for diaphragm walling and piling at Coventry.

North of the Border, Stent's Scottish unit has secured a £190,000 contract from Monk for work on the Kirkintilloch by-pass.

DIARY DATES

PARLIAMENTARY

Today

Commons: Timetable motion on the Prevention of Terrorism (Temporay Provisions) Bill.
Security Service Bill, third reading.
Motions on Scottish Housing Grant Orders.
Lords: Debate on EC report on a European financial area.
Children Bill, committee.

Tomorrow

Commons: Opposition debate on "The failure of the Ministry of Agriculture, Fisheries and Food to protect the consumer."
Motion on Access to Personal Files (Social Work) (Scotland) Regulations.
Opposed private business at 7 p.m.
Lords: Civil Aviation (Air Navigation Charges) Bill, committee.
Law of Property (Miscellaneous Provisions) Bill, second reading.
Road Traffic (Driver Licensing and Information System) Bill, committee.
Select committee: Education, Science and Arts: subject, the supply of teachers for the 1990s. Witnesses: Universities Council for the Education of Teachers and Polytechnics Council for the Education of Teachers. (Room 15, 4.15 p.m.)
Committee on a private bill: London local authorities. (Room 5, 11 a.m.)

Wednesday

Commons: Official Secrets Bill, committee.
Motion on the Monopolies and Mergers (Performance of Functions) Order.
Lords: Debate on the Government's method of conducting relations with foreign countries.
Junior Hospital Doctors (Regulations of Hours) Bill, second reading.
Select committees: Agriculture: subject, salmonella in eggs. Witnesses: Mr John MacGregor, Agriculture Minister, and Mr Kenneth Clarke, Health Secretary. (Room 10, 10.30 a.m.)
Environment: subject, Toxic waste. Witness: Earl of Caithness, Minister for Housing Environment and Countryside. (Room 21, 10.30 a.m.)
Foreign Affairs: subject, Eastern Europe and the Soviet Union. Witnesses: Professor W. Brus of Wolfson College, Mr M. Kaser of St Antony's College, Mr A. Smith and officials from the Department of Trade and Industry. (Room 15, 10.30 a.m.)
Parliamentary Commissioner for Administration: subject, remit of the Ombudsman. Witnesses: Lord Chancellor and officials. (Room 19, 10.30 a.m.)
Energy: subject, Electricity Bill. Witness: Mr Cecil Parkinson, Energy Secretary. (Room 8, 11 a.m.)
Agriculture: subject, salmonella in eggs. Witnesses: Professor R. W. Lacey; Dr Tim Lang, director of the London Food Commission and officials of the Ministry of Agriculture. (Room 10, 2.30 p.m.)
Employment: subject, work of the Equal Opportunities Commission. Witnesses: chairman and chief executive of the commission. (Room 8, 4.15 p.m.)
Foreign Affairs: subject, Eastern Europe and the Soviet Union. Witnesses: officials of the Department of Trade and Industry. (Room 15, 4.15 p.m.)
Public Accounts: subjects, Customs and Excise accounts and report on fraud and smuggling. Witness: Mr J. B. Unwin, chairman, Board of Customs and Excise. (Room 16, 4.15 p.m.)
Social Services: subjects, resourcing the National Health Service and Whitley Councils. Witnesses: chairmen of regional health authorities, regional general managers and Dr P. Beaumont, Glasgow University. (Room 21, 4.15 p.m.)
Transport: subject, roads for the future. Witnesses: British Road Federation, TUC and Transport and General Workers Union. (Room 17, 4.15 p.m.)
Treasury and Civil Service sub-committee: subject, manpower losses in the revenue department. Witnesses: Officials of the Inland Revenue and Customs and Excise. (Room 16, 4.30 p.m.)

Thursday

Commons: Elected Authorities (Northern Ireland) Bill, remaining stages.
Lords: Road Traffic (Driver Licensing and Information Systems) Bill, committee.
Atomic Energy Bill, committee.
Motion on the Monopolies and Mergers Commission (Performance of Function) Order 1988.
Question to Government on action to combat increasing serious crime on the London Underground.
Select committee: Employment: subject, Legionnaire's Disease. Witness: Grace Dearborn Ltd. (Room 20, 4.15 p.m.)
Committee on Private Bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill (Room 6, 10.30 a.m.) London Local Authorities Bill. (Room 5, 10.30 a.m.)

Friday

Commons: Private Members' bills.

FINANCIAL

TODAY
COMPANY MEETINGS-
Ferry Pickering Group, Allen House, Newarke Street, Leicester, 12.00
Viking Packaging Group, The Feathers Hotel, Ledbury, 10.30
BOARD MEETINGS-
Finals:
[illegible]
Central Motor Auction
[illegible]
Interims:
Applied Holographics
Dyson (J. J.)
Gibbs Mew
Kenyon Securities
Lebowa Platinum Mines
[illegible]
Prism Leisure
Rustenburg Platinum
[illegible]
DIVIDEND AND INTEREST PAYMENTS-
BAA 3.2p
Canadian Imperial Bank of Commerce Fltg. Rate Debs. 1994 $466.31
Charles Group 0.55p
Co-operative Bank Sub. Fltg. Rate Nts. 2000 £128.03
FKI Babcock 1p
Fine Art Developments 2p
[illegible]
Lucas Inds. 15p
M & G Group 5p
Osborne & Little 2p
Reject Shop 1.05p
Texas Instruments 18cts.
Toomis (R. W.) 3.6p
Wardell Roberts 1p
TOMORROW
COMPANY MEETINGS-
Bass, Barbican Hall, Barbican Centre, E.C., 12.00
Dundee and London Inv. Trust, Royal Exchange, Dundee, 12.00
Johnson & Firth Brown, Ramada Renaissance Hotel, Blackfriars Street, Manchester, 11.00
Leeds Group, Post House, Bramhope, Leeds, 12.00
Northern American Trust, Dunedin House, 25 Ravelston Terrace, Edinburgh, 12.00
BOARD MEETINGS-
Finals:
Ebor
Company of Designers
Goring Kerr
Hawk Inds
Nook Data
RCO
Spice
Taco
Interims:
Rogas
Johannesburg Cons. Inv.
Kalouzi
McKay Securities
Murray Smaller Markets
Pathfinder
Practical Inv. Co.
Saville Gordon (J.)
DIVIDEND AND INTEREST PAYMENTS-
Bristol & West Bldg. Soc. Fltg. Rate Nts. 1992 £154.38
Industrias Penoles SA De C. V. Fltg. Rate Nts. 1989 $256.55

Marston, Thompson & Evershed 0.94p
Rothmans Intl. B 3.5p
WEDNESDAY JANUARY 25
COMPANY MEETINGS-
Crystalate, Glaziers Hall, 9 Montague Close, London Bridge, 12.00
Fairline Boats, The Peterborough Moat House, 12.00
Gleeson Group, Haredon House, London Road, North Cheam, Surrey, 12.00
Reliant Motor, The Belfry Hotel, Wishaw, North Warwickshire, 12.00
[illegible]
BOARD MEETINGS-
Finals:
[illegible]
Hewitree Brewery
[illegible]
Micrpgen
Newman Tonks
Interims:
Saga
Tomkins
[illegible]
DIVIDEND AND INTEREST PAYMENTS-
American Business Systems 0.7p
[illegible]
Bankers Tst. New York Corp. 50cts.
[illegible]
Christie Grp. 1.4p
[illegible]
Debenhams 7 1/4% Uns. Ln. 2002/07 3 5/8%
General Electric Co. 41cts.
Johnson & Firth Brown 1.4p
Manufacturers Hanover Corp. 82cts.
National Australia Bank 25cts.
Northern American Tst. 4.85p
[illegible]
THURSDAY JANUARY 26
COMPANY MEETINGS-
Charterhouse Group, Chamber Hall, South East Hampshire Chamber of Commerce and Industry, 27 Guildhall Walk, Portsmouth, 2.45
Cronite Group, Painters' Hall, 9 Little Trinity Lane, E.C., 12.00
Ranks Hovis McDougall, Royal Lancaster Hotel, Lancaster Terrace, W., 12.00
Schroder Global Trust, 36 Old Jewry, E.C., 2.30
Scottish Inv. Trust, Roxburghe Hotel, Charlotte Square, Edinburgh, 10.30
Whessoe, St. Ermine's Hotel, Caxton Street, SW., 12.00
BOARD MEETINGS-
Finals:
Derby Tst.
Hill & Smith
Kershaw (A.)
Lonrho
Omnitech
Rank Org.

Warner Estate
Interims:
Chemring
Dawson Hldgs.
Dale Elect. Intl.
Glasgow Inc. Tst.
Goodhead Group
Independent Inv.
Mosaic Invs.
Newmark (Louis)
Optical & Medical Intl.
Park Food
DIVIDEND AND INTEREST PAYMENTS-
[illegible]
FRIDAY JANUARY 27
COMPANY MEETINGS-
[illegible]
BOARD MEETINGS-
[illegible]
SATURDAY JANUARY 28
DIVIDEND AND INTEREST PAYMENTS-
[illegible]

BPB Industries 3.75p
Bank of Nova Scotia C$0.21
Blenheim Exhibitions Group 5.6p
Bristol Evening Post 3.5p
Buffelsfontein Gold Mining Co. 170cts.
Canadian Imperial Bank of Commerce 29cts.
Caradon 3.5p
Century Oils Group 1.75p
Chemring Group 14p
Circaprint Hldgs. 2.4p
Cranswick Mill Group 1.85p
Davies & Newman Hldgs. 4.5p
[illegible]

Trade Fairs and Exhibitions: UK

January 24-26
Hirex Exhibition (01-660 8008)
Wembley Centre

January 28-February 1
British International Toy and Hobby Fair (01-701 7127)
Earls Court

January 29-February 2
International Food & Drink Exhibition – IFE (01-486 1951)
Olympia

February 5-7
Fashion Fabric and Sewing Fair (0422 51215)
Barbican

February 5-9
International Spring Fair (01-855 9201)
NEC, Birmingham

February 7-9
Textile & Technology Exhibition (01-385 1200)
G-Mex Centre, Manchester

February 9-12
Crufts Dog Show (01-493 7838)
Earls Court

February 12-16
North London Business and Industry Exhibition (0442 217466)
Picketts Lock, London

February 13-15
Information Technology Skills Exhibition-IT (0491 410222)
Olympia

February 15-16
Welding and Metal Fabrication Exhibition-WELDFAB (021 705 6707)
Harrogate Exhibition Centre

February 18-26
Boat, Caravan, & Leisure Show (021 236 3366)
NEC, Birmingham

February 19-22
International Men's & Boy's Wear Exhibition – IMBEX (01-940 6065)
Olympia

February 21-22
Northern Heating & Ventilating Exhibition (01-680 7525)
G-Mex Centre, Manchester

Overseas Exhibitions

January 23-26
Middle East Electronic Communications and Computer Graphics Shows and Conference (01-486 1951)
Bahrain

January 29-February 1
Irish Crafts Trade Fair (Dublin 884939)
Dublin

January 29-February 1
International Confectionery, Chocolate and Biscuit and Trade Exhibition (01-225 5566)
Paris

February 10-13
International Spring Trade Fair of Household Goods, Crystalware, Ceramics, Silverware & Gifts – MACEF (01-242 7289)
Milan

February 17-19
International Holliday and Travel Fair (Cork 273006)
Cork

February 18-22
International Consumer Goods Fair (01-734 0543)
Frankfurt

February 20-23
Construction and Engineering Exhibition (01-437 3344)
Kuwait

February 23-26
International Sports Equipment Fair – ISPO SPRING (01-948 5166)
Munich

Business and management conferences

January 30
IBC: Risk management planning and systems (01-236 4080)
City Conference Centre, London

January 31
CBI Conferences/ CILT: Languages mean business (01-379 7400)
Centre Point, London

February 2
Tolley Conferences: Practical VAT annual conference (01-680 5682)
The London Press Centre

February 3
Forum Communications: Accounting for brands - evaluating these "under-rated" assets (01-938 2222)
Royal Garden Hotel, London

FINANCIAL TIMES CONFERENCES

CABLE TELEVISION AND SATELLITE BROADCASTING
London, 20 & 21 February, 1989

The Financial Times seventh conference on Cable Television and Satellite Broadcasting is to be held at a dramatic turning point in the development of the new media in Europe when the explosion of choices, which has been promised for years, is about to happen and the Government is drawing up its legislation on the future of British broadcasting. Tim Renton, UK Broadcasting Minister is to give the opening address. Principal speakers looking at satellite competition in Europe and what the satellites have to offer include: Andrea Caruso, Dr Pierre Meyrat, Jim Styles and Mark Booth. Elco Brinkman, Dutch Minister responsible for Cultural Affairs and Broadcasting, Christine Ockrent, Deputy Controller of News at Antenne 2 and Dr Burkhard Nowotny, Managing Director of Bundesverband Kabel und Satellit will speak on new media developments.

FT CITY SEMINAR
London, 20, 21 & 22 February 1989

The FT City Seminar has given comprehensive guidance on the changing City on the eight occasions when it has been held in the last five years. In February the Seminar is to be held again and the 1989 agenda will include a number of presentations concerned with the outlook for London as the Single European Market of 1992 comes closer, while continuing to provide a full description and assessment of the players, markets and institutions of the City.

THE LONDON MOTOR CONFERENCE
London, 6 March 1989

The 1989 London Motor Conference will focus on manufacturing, components and the aftermarket. Noel Goutard, Chairman of VALEO will discuss the Europeanisation of components. The manufacturing of vehicle parts and accessories and how to operate successfully in the aftermarket will be amongst the themes to be discussed. Speakers will include: John G White, Group Managing Director, BBA Group PLC; Roger H Storey, Chairman, Quinton Hazell plc; Tim Worrall, Managing Director, Quicks Group plc; Ronald H Lamb, Group Managing Director, Solaglas Ltd; John Wormald, Principal, Booz Allen & Hamilton; Garel Rhys, SMMT Professor of Motor Industry Economics, Cardiff Business School. The conference will be chaired by John Lawson, Executive Director & Automotive Analyst, Nomura Research Institute Europe Limited.

RETAILING IN THE 90s – THE PROFITABLE APPLICATION OF TECHNOLOGY
London, 20 & 21 March 1989

The FT's latest conference on retailing will review the changing market conditions and the growing importance of new powerful technologies and innovation for retailers. The conference will be chaired by James Gulliver of Lowndes Queensway and Richard Weir of the Retail Consortium. Speakers include Sophie Mirman, Sock Shop International; John Thompson, Index Group, Desmond Pitcher, The Littlewoods Organisation; Jeremy Soper, W H Smith and Gareth Williams, Marks and Spencer.

All enquiries should be addressed to the: Financial Times Conference Organisation, 126 Jermyn Street, London SW1Y 4UJ. Tel: 01-925 2323 (24-hour answering service) Telex: 27347 FT CONF G Fax: 01-925 2125

COMPANY NOTICES

TRAFALGAR FUND
société anonyme d'investissement
Registered Office: LUXEMBOURG, 14, rue Aldringen
Commercial Register: Section B n° 8202

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of TRAFALGAR FUND S.A. will be held at its registered office, 14, rue Aldringen, Luxembourg, on January 31st, 1989 at 15.00 o'clock p.m. for the purpose of considering and voting upon the following matters:

1. To hear and accept:
   a) the management report of the directors
   b) the report of the independent auditor
2. To approve the balance sheet and the profit and loss account as at August 31st, 1988.
3. Allocation of net profit.
4. To discharge the directors and the independent auditor with respect to their performance of duties during the period ended August 31st, 1988.
5. To elect the directors to serve until the next annual general meeting of shareholders.
6. To elect the independent auditor to serve until the next annual general meeting of shareholders.
7. Any other business.

The shareholders are advised that no quorum for the statutory general meeting is required and that decisions will be taken at the majority of the shares present or represented at the meeting.

In order to take part at the statutory meeting of January 31st, 1989, the owners of bearer shares will have to deposit their shares five business days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with one of the following Banks:

- Banque Générale du Luxembourg, S.A. 14, rue Aldringen, LUXEMBOURG
- J. Henry Schroder Wagg & Co., Limited 120, Cheapside, LONDON EC2V 6DS

The Board of Directors

TRAFALGAR FUND S.A.
société anonyme
Registered Office: LUXEMBOURG, 14, rue Aldringen
Commercial Register: Section B No 8202

NOTICE OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

The Extraordinary General Meeting of Shareholders of TRAFALGAR FUND S.A. will be held at its registered office in Luxembourg, 14, rue Aldringen, on 31 January, 1989 at 3.30 p.m. for the purpose of considering and voting upon the following matters:

1. Amendment of the name TRAFALGAR FUND S.A. to SCHRODER INTERNATIONAL SELECTION FUND.
2. Amendment of the period of establishment of the Company from a period of thirty years expiring on December 5, 1998 to an unlimited period.
3. Amendment of the present form of the Company to a société d'investissement à capital variable (SICAV) subject to the law of March 30, 1988 on undertakings for collective investment in transferable securities, in order to transform the Company into an umbrella fund with several classes of shares [illegible]
4. Statutory Nominations

Resolutions relating to points 1, 2 and 3 of the agenda of the Extraordinary General Meeting will require that a quorum of at least 50 percent of the total issued and outstanding share capital is represented [illegible]

No special quorum is required for the passing of the resolutions relating to point 4 of the agenda.

The shareholders may act at the Extraordinary General Meeting by appointing another person as their proxy in writing or by cable or telegram or telex.

To be passed the resolutions relating to points 1, 2 and 3 of the agenda must be carried by a majority of two thirds of the shares present or represented.

To be approved the resolutions relating to point 4 of the agenda will only require a simple majority of the shares present or represented.

- BANQUE GENERALE DU LUXEMBOURG S.A. 14, rue Aldringen, LUXEMBOURG
- J. HENRY SCHRODER WAGG & CO LTD. 120, Cheapside, LONDON EC2V 6DS

The Board of Directors

LEGAL NOTICES

IN THE MATTER OF THE INSOLVENCY ACT 1986
and
IN THE MATTER OF RUSSELL PRINTERS (WORCESTER) LIMITED
(IN RECEIVERSHIP)
REGISTERED NO. 478281
TRADING ADDRESS AND REGISTERED OFFICE
37 Friar Street
Worcester WR1 2NA

Notice is hereby given pursuant to Section 48 of the Insolvency Act 1986, that a Meeting of Creditors of the above Company will be held at The London Chamber of Commerce, 69 Cannon Street, London EC4 at 12 noon on Thursday 26th January 1989.

A form of Proxy is enclosed and a creditor is entitled to vote only if he has sent to the Joint Administrative Receivers at Booth White & Co., 1 Wardrobe Place, Carter Lane, London EC4V 5AJ, not later than 25th January 1989 details in writing of the debt that he claims to be due to him from the Company and the claim has been duly admitted under the provisions of The Insolvency Rules 1986 and there has been lodged with the Joint Administrative Receivers any Proxy which the creditor intends to be used on his behalf.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the Meeting. Creditors whose claims are partially secured should deduct the value of their Security from their total claim and they will only be allowed to vote on the unsecured portion of their claims.

12th January 1989

C.G. WISEMAN
JOINT ADMINISTRATIVE RECEIVER

IN THE MATTER OF THE INSOLVENCY ACT 1986
and
IN THE MATTER OF STATIONERY PRINT LIMITED
(IN RECEIVERSHIP)
REGISTERED NO. [illegible]
TRADING ADDRESS AND REGISTERED OFFICE
37 Friar Street
Worcester WR1 2NA

Notice is hereby given pursuant to Section 48 of the Insolvency Act 1986, that a Meeting of Creditors of the above Company will be held at The London Chamber of Commerce, 69 Cannon Street, London EC4 at 12 noon on Thursday 26th January 1989.

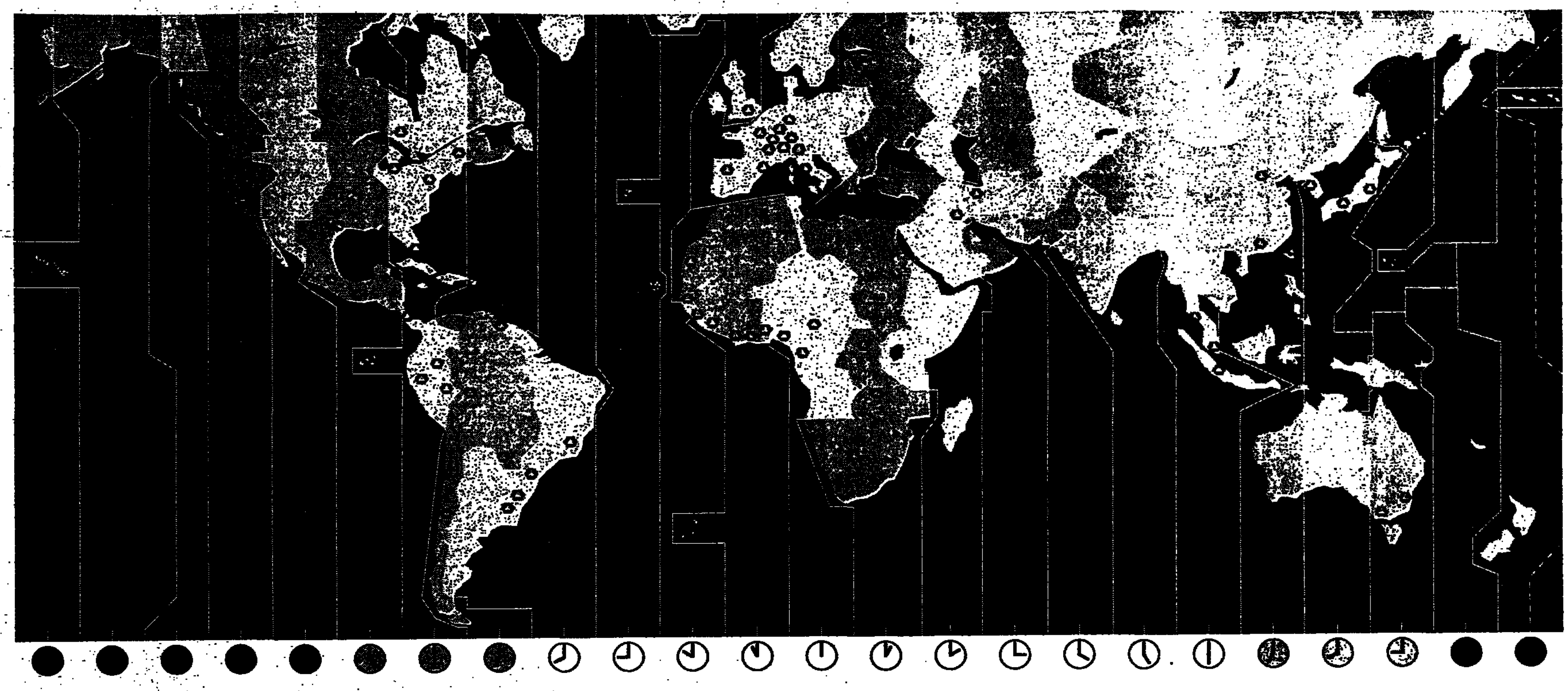
A form of Proxy is enclosed and a creditor is entitled to vote only if he has sent to the Joint Administrative Receivers at Booth White & Co., 1 Wardrobe Place, Carter Lane, London EC4V 5AJ, not later than 25th January 1989 details in writing of the debt that he claims to be due to him from the Company and the claim has been duly admitted under the provisions of The Insolvency Rules 1986 and there has been lodged with the Joint Administrative Receivers any Proxy which the creditor intends to be used on his behalf.

Creditors whose claims are wholly secured are not entitled to attend or be represented at the Meeting. Creditors whose claims are partially secured should deduct the value of their Security from their total claim and they will only be allowed to vote on the unsecured portion of their claims.

12th January 1989

C.G. WISEMAN
JOINT ADMINISTRATIVE RECEIVER

We have got all the time in the world for you.



Around the world, wherever the sun rises on a new business day, there's a Dresdner Bank office ready to serve you – in the Near, Middle, or Far East; in Europe, Africa, or the Americas. That's because Dresdner Bank is at home in over 50 countries, including all the world's major financial centers.

Take advantage of our worldwide presence and 100 years of banking experience.

You'll find Dresdner Bank providing in-depth market analysis as well as trade and investment financing, purchasing and selling foreign currencies and ensuring a smooth transfer of funds – 24 hours a day.

In fact, about one fifth of West Germany's foreign trade transactions are processed through the Dresdner Bank Group. And during the course of a year, the total of all the domestic and international transactions handled by Dresdner Bank add up to $120 billion.

Which makes us one of the world's largest and most experienced international banks.

Yet, Dresdner Bank's help extends beyond just saving you time and money. Thanks to our Electronic Banking Services and extensive correspondent banking network, we can help you do business profitably in every corner of the globe.

Your success in each market requires a unique approach and thorough understanding of local customs, thereby helping you formulate and implement clear-cut goals. You can rely on Dresdner Bank's highly regarded and sophisticated financial packages as well as our knowledgeable assistance in the complex, often time-consuming process of establishing new business ventures.

When could we discuss your special requirements in detail?

Dresdner Bank has all the time in the world for you.

Dresdner Bank

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off-peak, inc VAT

AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth						0345 717373
High Income						
American Income	6	45.48	45.98	48.91	5.60	40000
Gilts & Fixed Int	6	113.10	113.10	120.10	8.33	40001
High Inc Equity	6	118.70	120.90	129.30	4.61	40002
Worldwide Bond	6	189.30	189.30	200.60	4.84	40003
Capital Growth						
American Growth	6	151.30	152.40	162.90	1.33	40004
Asian Pacific	6	72.21	73.28	78.37	1.38	40005
Assets & Earnings	6	140.40	144.40	153.60	2.60	40006
Capital Reserve Acc	0	82.19	82.19	82.32	4.86	40007
Comdty & Energy	6	92.83	92.83	99.29	0.00	40008
1992 Enterprise	6	48.80	49.83	53.01	3.40	46597
European Capital	6	75.82	76.27	81.13	0.92	40009
General	6	158.60	161.40	171.70	2.62	40010
Japan	6	100.90	102.60	109.10	0.00	40011
Mastertrust	6	74.89	74.89	80.10	1.85	40012
UK Growth Acc	6	175.60	183.30	194.90	1.36	40013
UK Growth Dist	6	117.80	123.0	130.8	2.03	40014
US Emerging Cos	6	45.96	47.90	50.53	0.00	40015
Income & Growth	6	263.1	268.6	285.7	3.33	40016
Ethical	6	43.55	44.66	47.50	2.63	40017
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ						0224 633070
American	5¼	41.69	41.69	44.35	1.97	40022
Australian	5¼	23.59	23.59	25.10	1.27	40024
European	5¼	51.19	51.19	54.46	0.00	40025
Extra Income	5	39.07	39.07	41.47	4.81	40021
Fixed Int Tst	5	107.1	107.1	113.9	2.38	40100
Do Accum	5	163.3	163.3	173.5	2.38	40101
Gilt & Fixed Int	5¼	21.74	21.74	23.13	10.25	40026

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ¥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

Other explanatory notes contained in last column of the FT Unit Trust Information pages.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Wardley Unit Tst Mngrs Ltd (0900)H
99, Bishopsgate, London, EC2P 2LA. 01-374 0861

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American ♦	5¼	57.84	57.84	61.86	1.8	41574
Intl Growth	5¼	70.17	70.17	75.04	0.4	41575
Income ♦	5¼	118.1	120.2	128.6	5.5	41576
Japan Growth	5¼	200.9	203.9	218.1	0.1	41577
Pacific Perf	5¼	125.2	125.2	133.9	0.6	41578
Small Co's ♦	5¼	140.3	140.3	150.0	1.6	41579
Technology	5¼	29.86	29.86	31.93	0.1	41580
Australia	5¼	62.01	62.01xd	66.32	2.7	41581
UK Trust ♦	5¼	167.0	167.0	178.6	2.9	41582
European Growth ♦	5¼	52.93	53.48	57.20	0.1	41583
Hong Kong ♦	5¼	33.05	33.05	35.34	1.6	41584
Intl Income	5¼	19.84	19.84xd	21.21	8.0	41585
S'pore & Mlysn	5¼	23.75	23.75	25.40	0.8	41586
British Warrants ♦	5¼	25.70	25.70	27.48	2.5	41587

Waverley Unit Tst Mngmt Ltd (1000)F
13 Charlotte Sq, Edinburgh 031-225 1551

Australasian Gold	5	16.99	16.99	18.07	0.00	41588
Pacific Basin	5	24.83	24.83	26.41	0.60	41589
Can Balncd Gwth ♦	5	45.27	45.27	48.51	0.10	41590
[illegible]	4	[illegible]	[illegible]	[illegible]	[illegible]	41591
Penny Share	5¼	26.90	26.90	28.61	0.50	41592

Wellington Fund Mngrs Ltd (1200)F
2, London Bridge, SE1 01-407 4404

Wellington Income	5¼	113.8	115.2xd	122.6	4.84	41593
Wellington Growth	5¼	178.7	180.4	192.0	1.27	41594

Wessex Asset Management (1330)F
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432

Wessex UK Gwth	4¼	97.43	101.07	105.07		41595

Whittingdale Unit Tst Mngmt Ltd
2 Honey Lane, London EC2V 8BT 01-606 3152

Challenger ♦ F	1¼	53.87	53.87	54.57	0.00	41596
Short Dtd Gilt ♦ F	1¼	80.46	80.46	81.46	6.77	41597
U.S. Govmt Bond ♦ F	0	6.5470	.5470	.5474	8.00	41598

[illegible]

Albany Life Assurance Co Ltd
3 Darkes Lane, Potters Bar EN6 1AJ 0707 42311

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Brit Blue Chip Fd Acc(z)	119.0	125.2	—	41691
Equity Fd Acc(z)	938.8	988.1	—	41692
European Fd Acc(z)	205.6	216.4	—	41693
Intl Fxd Int. Fd Acc(z)	198.9	209.4	—	41698
Fixed Int Acc(z)	339.5	357.3	—	41694
Gtd Money Fd Acc(z)	227.5	239.5	—	41695
High Income Fd Acc(z)	106.1	111.6	—	41696
Intl Man Fd Acc(z)	370.0	389.4	—	41697
Japan Fd(z)	296.2	311.8	—	41699
UK Small Co's Fd Acc(z)	104.8	110.2	—	41704
Global Metro	97.1	102.2	—	46534
UK Metro	99.8	105.1	—	46537
Nth American Fd Acc(z)	168.5	177.3	—	41700
Pac Basin Fd Acc(z)	133.7	140.7	—	41701
Prop Fd Acc(z)	311.2	327.5	—	41702
Multiple Inv Acc(z)	643.1	676.9	—	41703
Pension Funds				
Brit. Blue Chip Acc(z)	126.8	133.5	—	41705
Eq Pen Fd Acc(z)	1777.2	1870.7	—	41706
Euro Fd Acc(z)	255.2	268.6	—	41707
Fixed Int. Acc(z)	685.2	721.2	—	41708
Gt Money Pn Acc(z)	402.4	423.54	—	41709
High Interest	134.7	141.7	—	46536
High Income Fd Acc(z)	109.3	115.0	—	41710
Intl Man Fd(z)	544.4	573.0	—	41711
Jap Pen Fd Acc(z)	420.7	442.8	—	41712
UK Small Co's Fd Acc(z)	107.5	113.1	—	41716
Global Metro	98.5	103.6	—	46535
UK Metro	102.4	107.7	—	46538
N Am Pn Fd Acc(z)	195.6	205.9	—	41713
Pac Basin Fd Acc(z)	150.4	158.3	—	41714
Property(z)	522.7	550.1	—	41715
Multiple Inv Pens Acc(z)	1261.8	1328.1	—	41717
Broker Funds				
Pens. Fen. Fd	88.9	93.6	—	41718
YRA Strategy	112.2	115.0	—	41719
Langham Dollar (SE)	140.3	147.7	—	41720

Cannon Assurance Ltd (z)
1 Olympic Way, Wembley HA9 0NB

	Bid Price	Offer Price
2nd Series Life Accumulation		
Equity	401.6	425.0
High Income	385.4	407.8
Strategic Opps	100.2	106.0
Property	290.3	307.2
Managed 2	127.3	134.7
Managed	285.7	302.3
Managed 4	124.0	131.2
Deposit	197.0	208.5
Gilt	200.9	212.6
American	226.9	240.1
International Money	196.8	208.3
Index	123.2	130.4
Far East	253.7	268.5
Global	88.10	93.20
European	90.80	96.10
Japan	161.8	171.2
Heritage Property	96.90	102.5
Intl Currency Bond	92.20	97.60
2nd Series Pension Accumulation		
Equity	663.9	702.5
High Income	486.0	514.3
Strategic Opps	102.6	108.6
Property	433.6	458.8
Managed 2	133.5	141.2
Managed	428.7	453.7
Managed 4	130.7	138.3
Deposit	312.9	331.1
Gilt	297.0	314.3
American	359.4	380.3
International Money	294.6	311.7
Index	139.0	147.1
Far East	304.6	322.3
Global	89.00	94.20
European	93.30	98.70
Japan	184.0	194.7
Heritage Property	100.5	106.3
Intl Currency Bond	94.20	99.70
Broker Managed Funds		
Baden Walter Imperial	118.2	125.1

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

INSURANCES

[illegible]

Continued on next page

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	44	–	28.12	1Feb 1Aug	1299
1,909	War Loan 3½pc	39	–	22.11	1Jun 1Dec	1355
140	Conv. 3½pc '61 Aft.	61½	–	25 8	1Apr 10ct	1243
56	Treas. 3pc '66 Aft.	32½	–	1.9	5Apr 50ct	1324
276	Consols 2½pc	27	–	1 12	5Ja Ap Jul 0	1238
475	Treas. 2½pc	27	–	25 8	1Apr 10ct	1315

Index-Linked

Amount £m	Stock	Price £	Red. Yld. (b)	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(94.6)	125	3.21	19 12	25Jul 25Jan	1311
650	Do. 2pc '92(97.8)	104	3.62	17.8	23Mar 23Sep	1312
400	Do. 2'94 (102.9)	95	3.71	10 10	16May 16Nov	–
1,000	Do. 2pc '96(67.9)	139	3 73	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	119	3 74	18 8	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	117	3.78	14.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	119	3.79	13.12	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	111	3 77	14.10	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	116	3.75	17 1	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	96	3 72	10.1	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	104	3.69	20 12	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83 0)	102	3.61	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24(97.7)	86	3.56	12 12	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for May 1988:106.2 and for December 1988:110.3

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	45	3.50	7.78	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	45	3	6.67	1.8	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	45	2	4 44	3 10	1Apr 10ct	2761
1	Hung '24 Ass.	80	2.75	3.57	3 5	1May	2935
40	Hydro Quebec 15pc 2011	136	15.00	10.83	27 10	31May 30Nov	–
30	Ireland 14½pc Ln 2016	128	14.50	10.66	29 12	31Jan 31Jul	–
30	Ireland 9¾pc '91-96	94	9.75	11.30	1 8	1Mar 1Sep	3002

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

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AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
128.2	♥Unilab	138p	–	–	–	–	–
3,189.7	Utd. Technologies	24¼	$1.60	3.6	15.11	Mr Ja Se Dc	4381
–	♥Utilitech Inc.	145p	–	–	–	–	–
6,662.3	US West‖	33¼	$3.52	5.9	13.4	Fb My Ag No	–
5,455.4	Waste Management $1	24 [illegible]	48c	1.1	16.12	Ap Jy Oc Ja	4439
1,021.3	Whirlpool $1	14¾	$1.10	4.1	30.11	Mr Jn Se Dc	–
2,151.0	Whitman Corp.	19 [illegible]	96c	2.8	6.12	Ap Jy Oc Ja	2951
1,978.5	♥Woolworth $3½	30¼	$1.64	3.0	19.11	Mr Je Se Dc	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥ABM Gold Corp ‖	137½p	–	–	–	–	–
–	♥Abbot Energy Corp	4½p	–	–	–	–	–
604.8	♥Amer. Barrick Res.	10½	–	–	–	–	–
–	♥Amer. Lightwave ‖	2⅞p	–	–	–	–	–
–	♥Armeno	17⅞p	–	–	–	–	–
–	♥Augmitto Expln	32½p	–	–	–	–	–
1,456.5	Bk. Montreal ‖	14	$2.00	6.5	8.8	Fb My Ag Nv	–
1,172.6	Bk. Nova Scot. ‖	787p	84c	5.4	28.9	Ja Ap Jn Oc	–
4,897.1	BCE ‖	18¼	$2.44	6.1	6.6	Ap Jy Oc Ja	–
272.9	♥Bow Valley ‖	659p	40c	2.8	15.12	May Nov	–
925.0	♥Brascan ‖	13⅝	88c	2.9	28.10	Ja Ap Jy Oc	–
41.7	♥Breakwater Res.	186p	10c	2.4	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

هكذا من الأصل

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LEISURE—Contd

MOTORS, AIRCRAFT TRADES

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PROPERTY

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SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Cvr	Y'ld Gr's	Last xd	Dividends Paid	City-line
—	♦Supa Res 20c	3	—	—	—	—	—	4148
—	♦West Coast 25c	3	—	—	—	—	—	4462
2,130.2	Westn. Mining 50c.	253	Q20c	3.6	24.10	—	May Dec	4479
—	♦Whim Creek 10c.	108	Q11c	4.3	—	—	—	4486

Tins

Miscellaneous

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Cvr	Y'ld Gr's	Last xd	Dividends Paid	City-line
3.03	Pennant Grp. 2p	17	d0.2	1.6	—	—	—	4969
1.07	Premier Optical 2½p	36	—	—	—	—	—	4009
5.00	Propeller 1p	48	—	—	—	—	—	3729
2.40	Rentaminster 5p	59	u1.0	2.3	—	—	—	5228
8.32	Royal Sovereign 10p	188	†4.6	3.3	3.10	—	May Nov	1505
1.44	Scott Pickford 10p	20½	—	3.1	20.2	—	—	5062
7.01	Seacon Hldgs.	101	21.0	1.3	19.9	—	October	3968
0.93	Scalc Tape 2½p	7½	0	—	—	—	—	5152
4.14	Stakis Hldgs. 5p	15	—	—	—	—	—	4625
3.56	Swanyard Studios 1p	2½	—	—	—	—	—	4646
27.3	Takare	313	b1.0	0.4	—	—	—	4647
3.14	Tomorrows Leisure 20p	28	—	—	—	—	—	4248
12.2	Tullow Oil 10p	19	—	—	—	—	—	4886
4.23	UPL Group 10p	105	L2.41	3.1	28.11	—	June	4362
7.49	Unit Group	145	F7.5	6.9	28.11	—	Jan July	4357
11.0	Whitegate Leisure 20p	15½	—	—	—	—	—	1105
0.70	Do. Wrrnts.	10½	—	—	—	—	—	1116
16.9	Wilton Group 1p	5	—	—	—	—	—	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♠ *Not comparable*
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ∟ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a *special payment. A Net dividend and yield. B Preference dividend* passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. *R Forecast annualised dividend.* T Figures assumed. *W Pro forma figures.* Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or −
Albany Inv 20p γ	69	......
Craig & Rose £1 γ	710	......
Finlay Pkg. 5p γ	86	......
Holt (Jos) 25p γ	1213	......

IRISH

Stock	Price	+ or −
Cap. 8½% Ln. 1991	£99½	......
9pc Cap Ln. 1996	£100¼	......
Fin. 13% 97/02	£122¼	......
Arnotts	390	+5
Carroll (P.J.) γ	153xd	+5
For Grafton Group see Industrials (Misc)		
Hall (R. & H.)	158	......
Heiton Hldgs. γ	45	......
Irish Ropes	165	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	40
Amstrad	18
BAT	48
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	99
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Stock	p
Brit Land	30
Land Securities	32
MEPC	50
Peachey	54

Oils

Stock	p
Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	5½
Shell	35
Ultramar	21

Mines

Stock	p
Cons Gold	100
Lonrho	38
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES REVIEW

EMS realignment can be delayed

A REALIGNMENT of the European Monetary System has become the subject of speculation. The EMS has virtually divided into two, with a strong group of the D-Mark, Dutch guilder and Irish punt, followed by the weak group of Belgian and French francs, Danish krone and Italian lira.

It has been two years since the system was last realigned, and because of different economic performances over that period it appears reasonable to suppose that another change in central rates may be required, as currencies in the weaker group have difficulty keeping pace with the D-Mark.

It may also be assumed that the weaker group needs a realignment, to restore competitiveness with West Germany, but this may not be the case, according to Mr Robin Hubbard, of Banque Paribas Capital Markets.

He suggests that France has probably gained competitiveness relative to Germany. On the same basis Italy has lost ground, but may delay a devaluation against the D-Mark, because Italy has a relatively high rate of inflation.

It appears to be true that the EMS bus is not too uncomfortable to travel on, and that by being tied economically to an efficient economy, such as West Germany, the other members of the EMS benefit. Potential members find it hard to run fast enough to catch up with the bus however.

The UK and Spain are probably in an uncompetitive position, relative to Germany, but need to keep their currencies firm, to dampen inflationary pressure. Banque Paribas believes there is little chance that either country will seek to become full members of the EMS this year.

On the face of it, the arguement that France has gained competitiveness over Germany seems strange, since the French inflation rate of 3.1 per cent is about double that in the Federal Republic. It seems obvious that if prices are rising faster in France, and the exchange rate is fixed against the D-Mark, French goods will eventually be priced out of the market, when competing with German products.

According to Paribas, looked at from the point of Relative Unit Labour Costs, Germany has lost competitiveness with France. The latest available figures show that from the second quarter of 1987, to the second quarter of 1988, RULC fell 0.5 per cent in Germany and 2.9 per cent in France. A rather alarming note is struck by the rise of 13.2 per cent in British RULC during the same period, underling doubts about early EMS membership for sterling.

This is not necessarily a completely accurate way of judging competitiveness however, because other factors such as quality of goods must also be taken into account. Paribas also looks at trends in bilateral trade. If Germany's exports to France were growing significantly more quickly than its imports from France it would suggest that German goods were highly competitive, but this is not the case.

There still remains the problem of Germany's trade surplus with the rest of the EC. In the first nine months of 1988 Germany's trade surplus with the EC was running at an annual rate of DM80bn (£24.5bn), which is about 75 per cent of its total surplus. Some 40 per cent of German exports are concentrated in capital goods however, and the German surplus has been boosted by capital spending in fast growing economies, such as the UK, Italy and Spain. If this is the case the answer is to slow down growth in those countries - and there are signs this is already happening - rather than adjust upwards the value of the D-Mark in the EMS.

Colin Millham

£ IN NEW YORK

Jan.20	Close	Previous Close
£ Spot	1.7770-1.7780	1.7640-1.7650
1 month	0.58-0.56pm	0.58-0.56pm
3 months	1.57-1.52pm	1.51-1.47pm
12 months	4.40-4.25pm	4.22-4.12pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jan.20	Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

Jan.20	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.746044	0.639898
U.S Dollar	6.50	1.30983	1.12622
Canadian $	11.54	1.55765	1.33739
Austrian Sch.	4	17.1810	14.6521
Belgian Franc	7.75	51.3060	43.6354
Danish Krone	7½	9.49299	8.08513
Deutsche Mark	4	2.44571	2.08452
Neth. Guilder	5.00	2.76636	2.35312
French Franc	9½	8.36064	7.10989
[illegible]	[illegible]	[illegible]	[illegible]

*All SDR rates are for Jan.19

CURRENCY MOVEMENTS

Jan.20	Bank of England Index	Morgan** Guaranty Changes %
Sterling	97.9	-14.1
U.S Dollar	66.9	-10.9
Canadian Dollar	102.2	-0.6
Austrian Schilling	106.5	+9.6
Belgian Franc	105.8	-6.4
Danish Krone	103.2	-2.0
Deutsche Mark	112.5	+20.0
Swiss Franc	108.4	+17.3
Guilder	109.8	+12.7
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Jan.20	£	$
Argentina	29.5830-29.6665	16.7100-16.7900
Australia	2.0195-2.0220	1.1440-1.1450
Brazil (1)	N/A-	N/A-
Finland	7.5210-7.5450	4.2650-4.2670
Greece	268.65-273.15	151.90-154.70
Hong Kong	13.7675-13.7805	7.7990-7.8010
Iran	123.50*	69.50*
Korea(Sth)	1200.15-1209.80	679.90-686.50
Kuwait	0.50600-0.50650	0.28630-0.28640
Luxembourg	68.20-68.20	38.55-38.65
Malaysia	4.7975-4.8110	2.7230-2.7250
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	FRIDAY JANUARY 20 1989: US Dollar Index	% Change Since Dec 30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY JANUARY 19 1989: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1988/89 High	1988/89 Low	Year ago (approx)
Australia (90)	150.68	+4.3	126.32	114.70	4.68	148.94	126.11	114.22	152.31	91.16	99.99
Austria (18)	95.07	-0.9	79.70	91.30	2.70	93.04	78.78	90.29	100.00	83.72	89.32
Belgium (63)	133.37	-1.3	111.81	127.62	3.93	131.61	111.44	127.39	139.89	99.14	104.06
Canada (126)	133.42	+6.3	111.85	114.77	3.18	132.79	112.43	114.38	133.42	107.06	110.08
Denmark (39)	158.10	+0.9	132.54	153.96	1.97	157.36	133.24	154.84	161.60	111.42	112.48
Finland (26)	132.54	+1.3	111.11	118.66	1.47	127.58	108.02	115.70	139.83	106.78	110.70
France (131)	116.43	+1.2	97.61	114.70	2.83	114.93	97.31	114.71	117.51	72.77	74.81
West Germany (102)	85.38	-2.9	71.58	81.83	2.31	85.06	72.02	82.58	90.40	67.78	69.90
Hong Kong (46)	120.28	+7.6	100.84	120.45	4.10	120.91	102.37	121.11	120.91	84.90	91.97
Ireland (18)	131.80	+0.0	110.49	127.85	3.94	131.06	110.97	128.73	144.25	104.60	110.66
Italy (98)	85.43	+0.3	71.62	86.19	2.34	84.43	71.49	86.26	86.88	62.99	72.12
Japan (456)	191.84	+0.2	160.83	155.52	0.48	190.55	161.34	156.22	197.43	133.61	141.85
Malaysia (36)	150.04	+4.6	125.78	157.41	2.71	150.10	127.09	157.88	154.17	107.83	119.46
Mexico (13)	161.12	-0.4	135.07	404.91	1.26	164.15	138.99	410.01	182.24	90.07	114.18
Netherland (38)	114.04	+1.5	95.61	108.27	4.56	112.16	94.97	107.89	114.04	95.23	95.80
New Zealand (24)	71.13	+5.2	59.63	59.85	6.58	71.34	60.40	60.18	84.05	63.32	77.07
Norway (26)	158.79	+14.3	133.12	144.62	1.88	159.67	135.19	146.45	159.67	98.55	103.91
Singapore (26)	133.11	+6.4	111.59	119.13	2.24	133.65	113.16	119.82	135.89	97.99	104.72
South Africa (60)	126.17	+8.0	105.77	105.07	4.40	118.77	100.56	103.23	139.07	98.26	131.40
Spain (42)	149.68	+0.9	125.48	130.12	3.21	148.12	125.42	131.07	164.47	130.73	135.48
Sweden (35)	146.12	+1.1	122.50	136.11	2.10	145.40	123.11	136.41	146.97	96.92	103.61
Switzerland (57)	76.75	-1.7	64.34	74.58	2.28	75.86	64.23	74.78	86.75	74.13	77.83
United Kingdom (314)	141.27	+4.4	118.43	118.43	4.57	139.36	117.99	117.99	141.51	120.66	139.41
USA (570)	116.55	+3.0	97.71	116.55	3.59	116.68	98.79	116.68	116.68	99.19	100.69
Europe (1007)	116.52	+1.7	97.68	105.24	3.59	115.17	97.51	105.24	116.61	97.01	99.99
Nordic (126)	142.66	+2.2	119.60	129.93	1.97	141.62	119.91	130.13	-	-	-
Pacific Basin (678)	187.18	+0.5	156.92	152.26	0.70	185.95	157.44	152.90	192.26	130.81	138.30
Euro-Pacific (1685)	158.90	+0.8	133.21	133.60	1.56	157.61	133.45	134.00	161.61	120.36	123.00
North America (696)	117.46	+3.2	98.47	116.48	3.56	117.55	99.53	116.57	117.55	99.78	101.19
Europe Ex. UK (693)	101.02	-0.4	84.69	97.23	2.81	100.00	84.67	97.52	102.91	80.27	81.16
Pacific Ex. Japan (222)	131.36	+5.4	110.12	111.00	4.41	130.77	110.73	111.01	131.36	87.51	95.54
World Ex. US (1884)	157.69	+1.0	132.20	132.82	1.63	156.37	132.40	133.17	160.10	120.26	122.65
World Ex. UK (2140)	141.93	+1.3	118.98	128.25	1.99	141.26	119.60	128.61	143.47	111.77	112.55
World Ex. So. Af. (2394)	141.95	+1.6	119.00	127.46	2.21	141.21	119.56	127.75	143.13	113.26	114.02
World Ex. Japan (1998)	117.83	+2.8	98.78	112.46	3.62	117.29	99.31	112.50	117.83	100.00	100.86
The World Index (2454)	141.86	+1.6	118.92	127.31	2.22	141.07	119.45	127.59	142.98	113.37	114.14

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.62 (US $ Index), 114.42 (Pound Sterling) and 123.18 (Local).

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CONSTITUENT CHANGES: Deletions: Jan. 17: London Shop (UK); Jan. 18: Omnicorp Invs. (New Zealand) and Pillsbury (USA). Name change: Jan. 18: Dunlop Malaysian Ind. to DMIB Berhad (Malaysia).

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 89 Vol	Last	May 89 Vol	Last	Aug. 89 Vol	Last	Stock
GOLD C	$400	250	10 8	250	21.50	-	-	$405.40
GOLD C	$420	30	1.80	297	11.50	20	20	$405.40
GOLD C	$440	15	0.70	332	5.30	-	-	$405.40
GOLD C	$500	-	-	499	0.50	-	-	$405.40
GOLD P	$420	2	15	106	16	2	18	$405.40
[illegible]								

TOTAL VOLUME IN CONTRACTS : 117,333

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	NatWestminster	13
Adam & Company	13	Clydesdale Bank	13	Northern Bank Ltd	13
AAB - Allied Arab Bk	13	Comm. Bk. N. East	13	Norwich Gen. Trust	13
Allied Irish Bank	13	Co-operative Bank	*13	PRIVATbanken Limited	13
● Henry Ansbacher	13	Coutts & Co	13	Provincial Bank PLC	14
ANZ Banking Group	13	Cyprus Popular Bk	13	R. Raphael & Sons	13
[illegible]					

MONEY MARKETS

Optimism in London is edged with caution

LAST WEEK'S rise of ½ per cent in the West German Bundesbank's discount and Lombard rates does not appear to have brought a realignment of the EMS any nearer.

The French franc improved against the D-Mark on Friday, after the Bank of France had matched the German move with a rise in its money market intervention rates.

Increases in the Dutch and Belgian discount rates also helped to prevent the D-Mark rising against other EMS currencies.

Outside the EMS, Switzerland and Austria increased their discount rates, but the trend in London rates was lower. Three-month sterling interbank continued to hover just above 13 per cent, but 12-month money fell to 12¾ per cent from 12⅞ per cent.

This followed encouraging UK economic news, involving lower than expected retail sales and average earnings in December. Friday's figures on inflation were in line with expectations, but caution was suggested by strong bank lending and money supply growth.

This Friday sees publication of the UK trade figures for December, bringing another possible test for sterling and interest rates. Hopes that base rates have peaked at 13 per cent could be dashed if there is a sharp deterioration in the trade picture. In general the City is not expecting much change in the December current account deficit, from the November figure of £1.6bn, but Phillips and Drew forecasts a shortfall of £2bn. This in itself might not herald higher base rates, but could set back the timing of any reduction.

UK clearing bank base lending rate 13 per cent from November 25

MONEY RATES

NEW YORK (4pm) Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

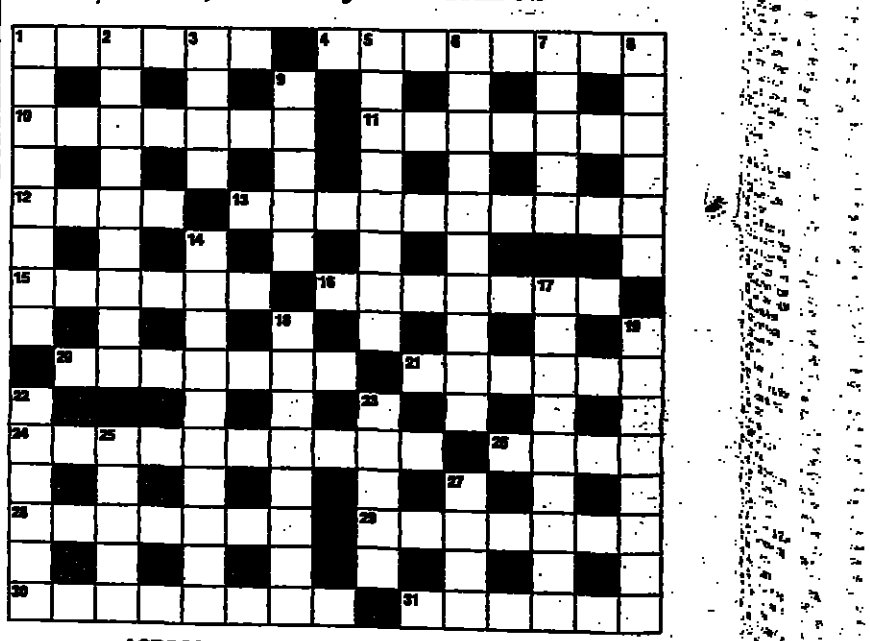
RIGHTS OFFERS

[illegible]

JOTTER PAD

CROSSWORD

No.6,841 Set by TANTALUS



ACROSS

1 Plant rare seed in borders of Russia (6)
4 Agreement to study area (8)
10 Garland certain to make diversion (7)
11 Posed in disguise with the Italian to rob (7)
12 All French look out for custom (4)
13 Like Kipling's fools at the wicket (10)
15 Outstanding person accepts silver for wild ass (6)
16 Chatter about the Spanish clergyman (7)
20 He shows interest in your affairs! (7)
21 Top performer going to church is formal (6)
24 Feel a gem is a criterion (10)
26 Too outspoken (4)
28 Once head of the regiment of highest degree (7)
29 Vegetables worker provides for countryman (7)
30 Pesters fellows in wrong quarter (8)
31 Vehicle not returning for container (6)

DOWN

1 Oriental tortured a member of the family (8)
2 Insist upon new suit with unusual pleat (9)
3 Many on the mat through taking this? (4)
5 Familiar bishop (8)
6 To fit together exactly, girl gets measure at leading emporium (10)
7 Everyone going round to see coral island (5)
8 Also showed the way in to Spanish city (6)
9 Flogs pipe fitting on board (5)
14 Senior teacher - stop this American brawl (10)
17 Target man constructed for Xanthippe (9)
18 Aware tax in set causes difficulties (8)
19 Furniture discovered in North Sea? (6)
22 Testify a race in Rome (6)
23 Shoot at bird (5)
25 Give voice to 28 (5)
27 Long story was a Galsworthy contribution (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday February 4.

WORLD STOCK MARKETS

AUSTRIA

1988/89 High	Low	January 20	Price Sch
2,070	1,850	Creditanstalt	2,045
3,140	2,600	Goesser	3,140
15,500	9,350	Interunfall	14,300
9,800	4,660	Jungbunzlauer	9,800
406	332	Laenderbank	366
682	581	Perlmooser	682
910	760	Reininghaus	910
187	151	Semperit	185
123	71	Steyr-Daimler	78
695	555	Veitscher Mag	675

BELGIUM/LUXEMBOURG

1988/89 High	Low	January 20	Price Frs.
3,450	2,490	B.B.L.	3,450
13,550	13,000	Bank Intl. a Lux	13,550
14,000	13,500	Banque Gen. De Lux	14,000
38,475	31,100	Banque Nat Belg	37,650
14,000	6,700	Bekaert B	14,000
6,900	4,200	Ciment CBR	6,900
5,850	4,050	Cobepa	5,510
5,940	4,100	Do. AFV 1	5,600
5,940	4,100	Do. AFV 2	5,590
357	123	Cockerill	347
13,400	4,800	Colruyt	12,975
5,090	2,920	Delhaize	5,070
4,900	4,105	EBES	4,780
4,900	4,100	Do. AFV 1	4,700
4,860	4,120	Do. AFV 2	4,700
1,330	470	Fabrique Nat	710
1,650	830	GB Inno BM	1,384
1,595	840	Do. AFV	1,400

FRANCE (continued)

GERMANY (continued)

ITALY (continued)

SWEDEN

NETHERLANDS

SWITZERLAND

NORWAY

SOUTH AFRICA

SPAIN

ITALY

DENMARK

FINLAND

FRANCE

JAPAN

AUSTRALIA (continued)

HONG KONG

AUSTRALIA

SINGAPORE

CANADA

TORONTO

Closing prices January 20

MONTREAL

Closing prices January 20

INDICES

NEW YORK — DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

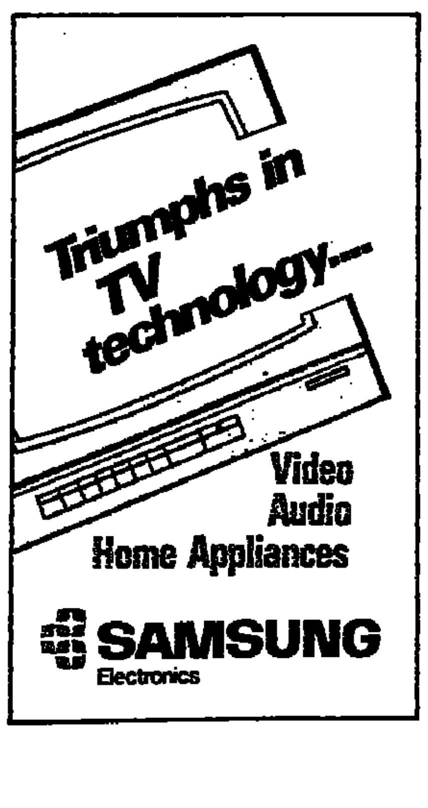
TOKYO - Most Active Stocks

Friday 20 January 1989

4pm prices January 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27⅞	18⅞	AAR	.44	1.7	16	299	26½	25⅞	26¼	– ½
10⅛	8⅞	ACM n	1.01	11.		159	9¼	9⅛	9⅛	
12⅛	10⅛	ACMIn	1.28e	12.		308	10⅞	10⅝	10⅞	+ ⅛
10½	8½	ACM M	n.17e	1.8		168	9½	9⅜	9⅛	
12⅛	10⅛	ACM Sc	1.26	12.		1529	10⅞	10⅝	10⅞	+ ⅛
10⅛	8½	ACMSp	n1.04e	11.		505	9⅛	8⅞	9	
6½	2⅝	AMCA	.12e	3.7		40	3¼	3⅛	3⅛	
6⅛	3⅞	AM Intl				732	5	4⅞	4⅞	– ⅛
23¼	18⅛	AM Int pf	2	9.1		28	22⅛	21⅞	22	
55⅝	32⅞	AMR			7	7675	53⅛	52⅛	53⅛	– ⅜
27	25	ANR pf	2.67	10.		1	25⅛	25⅛	25⅛	– ⅛
24⅞	20⅞	ANR pf	2.12	8.8		4	24	24	24	– ⅛
9½	5⅛	ARX			10	38	5⅞	5⅛	5⅛	
49⅛	35¼	ASA	3a	7.3		1616	40⅞	40	40⅞	+1½
20⅛	12⅛	AVX	.24	1.3	13	98	18½	18⅛	18⅛	– ⅛
52⅜	42⅞	AbtLab	1.20	2.6	14	3799	47⅛	46¼	46¼	– ⅜
20⅛	15⅛	Abitibi g	1			6	16⅞	16⅛	16⅛	– ⅛
13⅞	7½	AcmeC	.40	4.1		14	9⅞	9⅞	9⅞	+ ⅛
6⅞	5⅞	AcmeE	.32b	5.0	28	1	6⅛	6⅛	6⅛	
29½	16⅛	Acuson			22	328	23½	23⅛	23⅛	– ⅜
17	14½	AdaEx	1.82e	12.		131	14⅞	14⅝	14⅝	– ⅛
16⅞	7⅛	AMD			78	6880	8⅞	8½	8⅛	
43½	28⅞	AMD pf	3	9.4		15	31⅞	31½	31⅞	
8½	5½	Adobe				667	7⅛	7	7	
18½	16⅛	Adob pf	1.84	11.		34	17⅛	17⅛	17⅛	– ⅛
21⅜	20	Adob pf	2.40	12.		6	20⅝	20⅜	20⅝	+ ⅛
9⅛	5⅞	Advest	.12	1.8	24	160	7⅝	7½	7⅝	
52½	39½	AetnLf	2.76	6.7	8	1566	40½	40⅛	40⅜	– ⅜
44½	24	AflPb s	.22	.6		3406	41⅛	39½	40⅛	– ½
18⅝	13⅛	Ahmans	.88	6.0	10	2647	17½	17⅛	17½	+ ⅛
[illegible]										



Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
63	50¼	Xerox	3	6.1	10	1326	55⅞	55⅛	55⅛	− ⅛
49½	24⅜	XTRA	.72	1.7	15	605	u42	40½	41½	+1
30	23½	XTRA pf1.94		6.3		30	u31⅜	30¾	30¾	+ ⅜
3⅞	2	Zapata				2319	3⅛	3	3⅛	+ ⅛
27⅛	14½	Zayre	.40	1.6	158	4936	25⅛	24⅞	25⅛	+ ⅜
15½	9½	Zemex	.40	3.2	16	3	12⅝	12½	12½	− ⅛
30	13½	ZenithE				1555	20	19⅝	20	+ ⅛
10⅜	8⅞	Zenix n .89e		7.2		425	9⅞	9⅝	9⅝	
3⅛	1	vjZenLb				148	1⅝	1½	1½	
21⅝	15	ZeniNt .80b		4.7	8	158	17⅛	16⅞	16⅞	
18½	13	Zero	.44	2.5	15	572	17⅞	17⅜	17⅞	+ ⅛
29	19	Zurnin	.65	2.4	16	142	28⅛	27⅞	28⅛	+ ⅛
11⅛	9⅛	Zweig	1.08e	10.		501	10½	10⅜	10⅜	− ⅛
10⅜	9	ZweigT n.16e		1.7		670	9½	9⅜	9½	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices January 19

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
ProMed	.42		1	3⅛	3⅛	3⅛	
ProfCre		11	118	3⅛	3	3⅛	+ ⅛
− R − R −							
RAC n 1.31e			323	7	6⅞	6⅞	− ⅛
RBW			3	6	6	6	+ ⅛
Ransbg			1051	u17⅜	17⅛	17⅜	+ ⅜

OVER-THE-COUNTER

Nasdaq national market, 4pm prices January 19

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WillAL		8	1178	16	15⅝	15⅞	+ ⅛
WilmTr	1	11	226	30½	29	29⅝	+ ⅛
WilsnF		22	3	14⅛	14⅛	14⅛	
Windm s		13	3856	u24⅝	22⅞	24⅛	+1
Wolohn	.28	12	406	u23	22⅛	22⅛	+ ⅛
WoodEx			186	7⅛	6⅞	7⅛	
Worthg	.44	15	670	23⅛	22⅞	22⅞	− ⅛
Wyman	.80	14	331	15⅛	14½	14⅝	− ⅝
− X − Y − Z −							
XL Dta		19	216	u29⅛	28⅛	29	+ ⅛
XOMA			116	13½	13⅛	13⅛	− ⅛
X-Rite s	.08	14	60	9	8⅞	9	+ ⅛
Xicor		12	2321	7⅛	7⅛	7⅛	+ ⅛
Xyvsn			26	4⅞	4⅞	4⅞	
YelowF	.70	19	1368	30½	30⅛	30½	
ZionUt	1.44		193	21⅛	20⅞	21⅛	

FINANCIAL TIMES Monday January 23 1989

The Business Column

A dearth of poets and programs

Britain has a shortage of information technology (IT) specialists, severe enough, a recent Confederation of British Industry report* suggests, to leave the country "dangerously exposed" in international trade.

This is not new. For as long as digital computers have been applied to business there has been an acute shortage of data processing specialists. This is not unique to the UK; every developed country has more computers, literally and metaphorically, than people to program them.

And even when IT specialists do set fingers to keyboards, the results seem less than satisfactory. US research into a series of federal software projects showed that only 2 per cent of the software written was usable as delivered; 47 per cent was paid for but never delivered, 29 per cent was delivered but never used and 19 per cent abandoned or rewritten.

Most people involved in software development looking at these figures will feel a shudder of familiarity. So, on the face of it, if measures are put in train to ease the UK's apparent shortage of IT manpower, the result seems likely to be the recruitment of more and more people to create more and more software that neither works nor is fit for its intended purpose.

A simplistic conclusion, certainly, but one which sets the scene for the question of whether the apparent demand for IT specialists can ever be met. There are good reasons for thinking the answer is no.

Never-ending queue for good software

To some extent, of course, the queue for good software is like the queue for free medical treatment – endless by definition. But there are at least two further factors to be considered – the aptitude of the workforce and the complexity of the problem.

One, not too facetious, approach to the first is to consider the the UK's shortage of poets. Poets are not yet considered indispensable to Britain's industrial progress, but this may be only a matter of time. The authoritative body which uncovers the shortage will, no doubt, prescribe urgent action – training, planning, remuneration – to remedy the situation. But to what avail?

Some potential poets will find the task beyond them. Others will find the work uncongenial. Yet others will fail to progress beyond simple doggerel. So it is with computer software. While computer specialists like to believe that everybody should be computer literate, the evidence is to the contrary. All the encouragement and high salaries in the world may never bring enough of the right kind of minds into data processing.

We may have to settle for a community of IT specialists that is smaller than the experts think is necessary. The model should be the modern armed forces where battalions of cannon-fodder have given way to a compact, highly trained élite, with modern, effective weapons.

The IT equivalent of today's soldiers are excellently described in the *CBI report* as "51 per centers" – people skilled in IT but with almost as much skill in the business areas to which their computing expertise has to be applied.

The kind of weapons needed by these 51 per centers leads to the second critical factor, complexity. Are today's computer systems already too complex for mere human minds? Many IT specialists believe they are and are seriously concerned about the consequence of entrusting human lives to such systems. They argue the best answer is to apply computer power to the business of producing high quality, efficient software.

The UK is already a leader in the development of these "software engineering tools": a modicum of extra support for software engineering could prove more beneficial than panic measures to persuade more young people to become IT specialists – or poets.

Alan Cane

**Changes in IT skills – the impact of technology; CBI, 103 New Oxford Street, London WC1A 1DU.*

THE MONDAY INTERVIEW

Engineering the future

David Fishlock talks to Sir Francis Tombs, chairman of Rolls-Royce

Sir Francis Tombs is arguably the best-known engineer in British business today; although not everyone knows he is an engineer.

He has presided over a conspicuous improvement in the fortunes of three international engineering companies during the 1980s, including Rolls-Royce, a name still synonymous with the best that engineering can offer.

As chairman of the Advisory Council on Science and Technology (Acost), he advises the Prime Minister on engineering. He also advises N.M. Rothschild, the merchant bank, on such projects as investment in the infamous Sinclair electric car. "I was not enthusiastic."

As chairman of the Engineering Council until last year, he was embroiled in the engineering industry's efforts to educate more and better professional engineers, and to change the widely-held public image of an engineer as someone in overalls.

Frank Tombs is a round, slightly rumpled man of 64, whose sartorial insouciance ensures that he is unlikely to be mistaken for a banker. His face also breaks easily into an engaging grin. Colleagues know when he is angry because he becomes uncharacteristically quiet.

Tombs brusquely rejects the fashionable term "company doctor" for his role in restoring to favour with the City, successively, the Weir group, Turner & Newall and Rolls-Royce. He prefers the term manager and says self-deprecatingly that the task required nothing more than "the application of logic to difficult situations."

That logic he learned training to be an engineer, starting with the General Electric Company in Birmingham during the Second World War, when evening classes at the Birmingham College of Technology alternated with spells at a first aid post. After the war he became a graduate trainee in electricity supply for Birmingham Corporation, learning both to run a power station and to control the grid.

By 1952 he was an operating efficiency engineer with the nationalised electricity industry. But GEC wooed him back, to its Erith turbine-generator factory in Kent as a trouble-shooter for its products. He rose to general manager, learning a lot from the young Arnold Weinstock, before finding his company sold off to Parsons in 1965. Lord Weinstock, he says, has since admitted to him that this sale was a big mistake.

Irritation with the ways of accountants led him in his mid-30s to read in his spare time for an external London degree in economics. This taught him enough to get accountants worried, he says.

But his engineering experience has taught him to examine evidence critically, and to make decisions on the basis of inadequate data. "Engineering develops the judgmental qualities." Those qualities are readily translated into the kind of commercial situation in which he has made his name. "When engineers are willing to do it, they can make very good managers," he believes.

In 1968 he landed the post of director of engineering with the South of Scotland Electricity Board – the first job he had applied for since starting his career. He became deputy chairman and then chairman by 1974. He came to public attention as the ever-amiable but unswerving opponent of the Central Electricity Generating Board's plans to introduce the US nuclear pressurised water reactor (PWR).

PERSONAL FILE

1924 Born
1939 Joined GEC
1974-77 Chairman, South of Scotland Electricity Board
1977-80 Chairman, Electricity Council
1978 Knighted
1981-83 Chairman, Weir group
1982 Chairman, Turner & Newall
1985 Chairman, Rolls-Royce
1987 Chairman, Advisory Council for Research and Development

Tombs remains convinced that Britain should not be building big PWR power stations, even though he is chairman of a company which has built more than a score of PWR propulsion plants for the Royal Navy. He says he has no doubts about its safety as a sea-going engine, but does not accept that it will be as safe in a power station as the British reactor designs.

When offered the post of Rolls-Royce chairman, he warned Mr Norman Tebbit, then Industry Secretary responsible for the state-owned company, that he would continue to speak out against the Sizewell B PWR project. To its credit, says Tombs, the Government raised no objection.

This month, however, he has given his blessing to a scheme for Rolls-Royce to pursue a new design of PWR, in partnership with the UK Atomic Energy Authority and two US companies, as a prospective power-plant for small nuclear power stations.

The nuclear debate apart, Tombs broke free from electricity in 1981, just as he was reaching the pinnacle of his profession, by becoming president of the Institution of Electrical Engineers. Mr Tony Benn, then Energy Secretary, had brought him back to London, as chairman of the Electricity Council, in 1977, Tombs says, by a promise that he would head a unified industry incorporating the CEGB. But Benn – "an arch-procrastinator," according to Tombs – changed his mind.

Tombs challenged the new Thatcher Government to keep the promise instead, only to be told that it could hardly be seen to adopt a plan of Mr Benn's. So he resigned – without, he says, any idea what he might do next. In fact, the first invitation came on the day he announced his resignation. It was from Lord Rothschild, the bio-scientist, then chairman of the family merchant bank. Tombs is still on N.M. Rothschild's board and is chairman of its audit committee.

He was next approached to help the Weir group, then in dire straits. Tombs became its chairman from 1981 to 1983. Soon afterwards, he was approached about another company in desperate need of a rescue, which turned out to be Turner & Newall.

Tombs finds common factors in their distress. Each had taken its eye off the ball in attempts to diversify from a sound traditional business into areas it did not understand. With Weir, the attempted diversification was desalination, with T&N it was plastics and chemicals. Both firms became over-reliant on computers, asking too many questions and allowing the answers to drown in print-out. "All the real messages were lost."

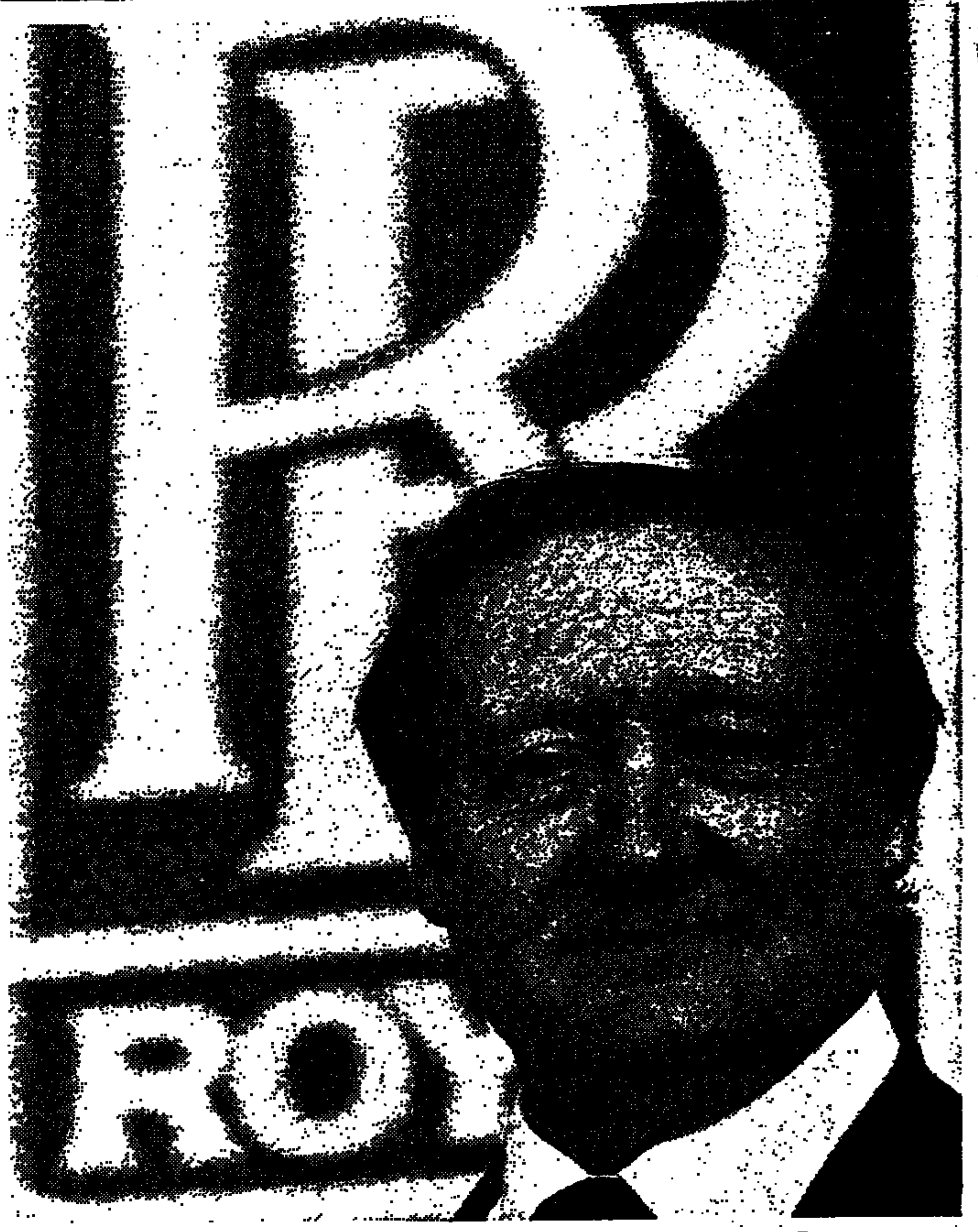
"I'm lucky in having a very simple mind," Tombs grins.

Rolls-Royce he already knew as a director, from 1982, when he was head-hunted following the sudden death of Sir William Duncan in 1985. By now exasperated with the fickleness of political decision-making, he asked for – and got – an assurance that he was to prepare Rolls for a return to the private sector. "My only condition," he says.

Today, Weir, T&N and Rolls-Royce are all managed by engineers he has chosen. At Rolls-Royce it is Sir Ralph Robins, one who "always has his eye on the bottom line". As with the other groups, there are many temptations to diversify. Its big US rivals are already more diversified. Moreover, Rolls-Royce is spending about £180m of its own money on research and development – "and we might as well get any fringe benefits that are going," Tombs says.

However, one area of diversification has been abandoned for the time being, at least. Well-publicised takeover talks with Northern Engineering Industries, the power-plant group, ended late last year because of what Rolls called an unbridgeable gap in price.

Thirty years' experience as the dominant partner in Rolls-Royce and Associates, the defence consortium that has built 20 PWRs for the Royal Navy, does provide one opportunity for fringe benefits. Plans for the new "safe integral reactor" a 300 MW PWR, "may prove to be an interesting development of our existing nuclear interests." Time will tell."



'When engineers are willing to do it, they can make very good managers'

The memorandum of understanding just signed between the company, the UK Atomic Energy Authority, and Combustion Engineering and Stone and Webster in the US, is an agreement to study the funding and market opportunities for this advanced engineering system for the next century, he says.

Nevertheless, he is determined Rolls-Royce will not take its eye off the ball, for he says he is confident its traditional aero-engine business offers immense opportunities for the future.

As chairman of Acost, comprising some of the nation's top technical talent, he has a unique view of the future. Tombs believes Britain is in better shape today than ever before in his own career, and that the quality of its management has never been higher. Its industrial management is now admired worldwide, he says, by Americans especially. "I'm not conscious that much is holding back Britain at the moment."

If there is one restraint, it is awareness of the importance of investing in research and development, he says. He cites Rolls-Royce, crucially dependent on R&D, as an example of how naive City analysis can be.

Last year the company's investment in R&D was unusually high, and this was criticised as bad, he says. This year it returned to more normal levels, and, says Tombs, this was also criticised as bad. "In both cases they should have been more concerned with what the money was being spent on," he says.

Launch aid from government for a major new project is another misunderstood investment, he says. Although he has little love for politicians, he still believes government should be prepared to help a company like Rolls-Royce to keep Britain at the forefront of engineering with launch aid for high-technology ventures. He is currently seeking £100m to help launch a new civil aero-engine.

The case for identity cards

A.H.HERMANN

My father often recalled that in the golden, pre-1914 times, he could travel abroad freely, without a passport. He thought that passports diminished personal freedom and were an intrusion on privacy.

Nowadays we no longer view passports as a bureaucratic nuisance, but rather as useful, benign and even beneficent instruments. Millions travelling abroad each year in search of sun or snow are rather proud when they get their first passport. However, the era of the passport seems to be coming to its end.

As a result of the post-1945 explosion of travel, frontier guards or immigration officers no longer have the time to look at them properly; they just wave you through. Nationals of the member states of the European Community can use identity cards instead of passports, but neither passports nor identity cards will be of much use unless they are soon made readable by electronic means.

In the golden age of small villages and self-conscious provincial towns, people knew each other, or could easily establish their identity. As we all became aliens inhabiting, or moving in, huge cities, identification became more difficult.

The driving licence became the first identity card, soon to be replaced by the credit card – *for many, the young in particular,* a temptation to get heavily into debt at usurious rates of interest.

During the Second World War we all had identity cards and were no worse for it. They were hardly designed by security experts, every espionage apprentice could forge them easily. But they were indispensable for food and other rationing and quite useful in establishing the name and address of a victim of accident, of whom there were many during the blitz.

For some reason, which nobody has been able to explain to me satisfactorily, many people now consider the suggestion that there is a need for peacetime identity cards as absolutely outrageous. It would be the end of privacy, freedom and democracy, they say. It would turn the UK into a police state. Why, every policeman could ask you who you were and demand the production of your identity card! The next thing would be random breathalyser tests.

These objections seem to me irrational, to say the least. If there is some good reason for it, the police can ask you who you are and what you are doing anyhow. And random breathalysing is no waste of your breath; it could save thousands of lives, yours included, in the same way as safety belts which are a greater, though apparently a more acceptable, constraint on freedom of movement.

Why should honest citizens going peacefully about their business or pleasure feel such reluctance to reveal who they are? A well-designed, machine-readable identity card, recording blood group, allergies and any medication on which the holders depend, could save lives in case of accident. Passing the card through a reader when boarding a ferry or an airliner could resolve some of the problems and anxieties following a disaster.

In addition to the obligatory contents, such as name, description, genetic fingerprint and address, additional information could be stored on the card, according to the bearer's choice. Such items might include the health data already mentioned, next of kin, marital status, employer, car registration number and the number of your car key. Indeed, I would treasure my identity card as an insurance against failing memory.

The possibility that the police could endorse my card with a magnetic command making the reading machine at the entrance to the terraces scream: "Stop that hooligan!" would hardly worry me. I have never been able to understand why so much passion is spent over 22 rather childish adults kicking a ball from one side of the field to the other.

An identity card could prove a real blessing to the very large number of young people, and some older ones too, who come into conflict with the law in a non-violent way, or are suspected by the police of having done so. Often they are detained and kept in police cells for the sole reason that they cannot convincingly show an address where they can be found or from where they could be summoned before a magistrate.

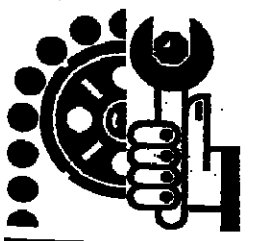
Identity cards could stop the congestion of police cells and other places of remand and, more important, they would spare the youthful suspects the trauma, the stigma and the undesirable education obtained inside.

In 1987 nearly a quarter of all detected offenders were young people aged 17 to 20. Half of these 130,000 offenders were found guilty of theft or handling stolen goods, which is mostly a teenage aberration, often brought about by lack of better opportunities for self-assertion. Most erring youth will grow out of petty crime and can be helped in various ways, but not by being put inside, and being taught new tricks by professionals, and thus made more hostile to authority than they naturally are at their age.

Custody promotes crime. About 65 per cent of those leaving youth custody or detention centres are reconvicted for further offences within two years. A new approach by magistrates is badly needed but they seem to be difficult to re-educate. In the meantime, identity cards could help a little, at least.

SECTION III

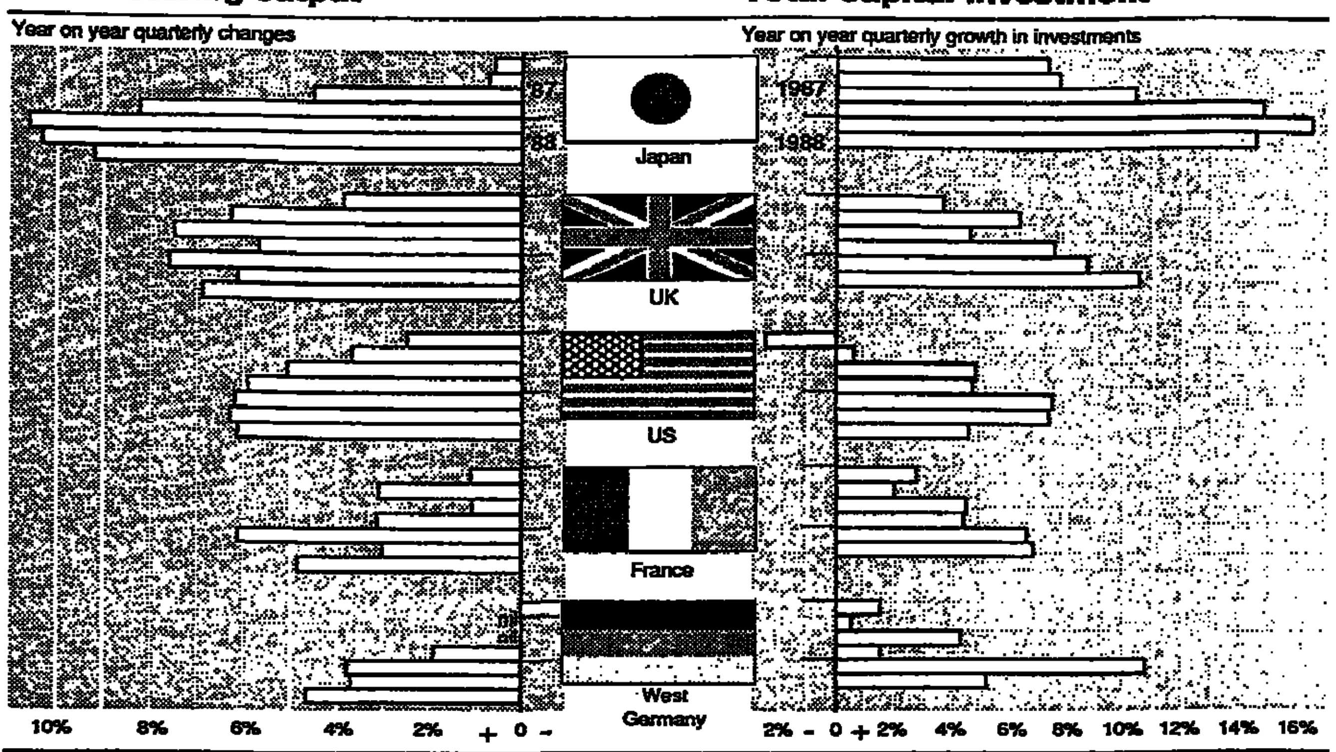
FINANCIAL TIMES SURVEY



A boom year was enjoyed in 1988. Now the brakes have been applied, however, and demand could slacken. Other concerns will include continued European rationalisation and increased globalisation of markets, writes Terry Dodsworth, Industrial Editor

Manufacturing output — Year on year quarterly changes

Total Capital investment — Year on year quarterly growth in investments



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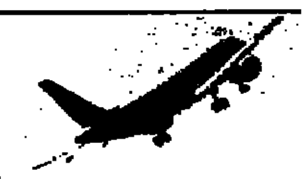


Graphics by Graham Lever

World Industrial Review

Year that would bear repeating

THROUGHOUT the developed world industrialists must be hoping for a repetition this year of the conditions they experienced in 1988. Against most expectations, manufacturers enjoyed a genuine *annus mirabilis* last year, with production bounding ahead, a world-wide investment boom, steady rises in productivity and sustained increases in profitability. It was a far cry from the forecasts of doom that followed the slump in the world's stock markets in 1987.

The one large cloud on this bright blue horizon was the growing fear of a renewed burst of inflation. Prices began to edge up in most developed economies during the year. There was talk, although by no means overwhelming evidence, of capacity shortages beginning to emerge. And governments began to push interest rates up to take some of the heat out of the expansion.

This general application of the monetary brakes lies behind the less buoyant predictions for industrial performance in 1989. The co-ordinated economic stimulus employed by the leading Western nations in late 1987 is now, analysts argue, turning into an equally co-ordinated move in the opposite direction. Demand should therefore slacken, and industry will be under less pressure to expand.

The need for some slowdown in industrial expansion may seem strange after the years of recession and sluggish recovery in the early 1980s. But the strength of the recovery could be seen last year across a range of industries and geographical boundaries. These included:

- In the US, steel manufacturers enjoyed record profits of around $2.5bn in aggregate, as they bounced back from the acute financial crisis that hit them in the mid-1980s. Production volume rose by 9 per cent and prices by 17 per cent.
- The world's semiconductor industry leapt ahead, registering 30 per cent growth in financial terms to achieve the $50bn a year mark in sales, and probably generating an underlying increase in volume of about 20 per cent.
- Car output accelerated to record levels.
- Sales of small and mid-range computer systems were extremely buoyant as companies turned to more departmental computing as a means of increasing productivity.
- Output of the world's chemicals industry rose dramatically after the cut-backs of the early 1980s, with production up in the three main areas of the US, Europe and Japan by almost 25 per cent since 1986.
- US exports of manufactured goods, stimulated by the slide in the dollar over the last two years, leapt by 30 per cent.
- Capital spending in industry throughout the Western world rose to the highest level in years. In Japan, expenditure jumped by 16 per cent as manufacturers strove for productivity improvements to offset the rise in the yen. UK companies achieved similar investment growth rates, while in the US spending rose by 9.5 per cent and in West Germany by 7.5 per cent.
- Industrial production recorded substantial growth in almost all of the countries belonging to the Organisation of Economic Co-operation and Development. In the first half of last year it rose by 5.7, with particularly strong performances in Japan and the US. World exports of manufactured goods jumped by 10 per cent in the same period.
- Productivity recorded sharp increases, with output per person rising 2.5 per cent in the OECD in the year to mid-1988, well above the trends since the early 1970s.
- Profits were strong in most countries, and capacity utilisation in manufacturing rose steadily, approaching the 1984 peak level in Japan, and reaching about 83 per cent in the US.

Although producers in many of these industries report full order books for the next three to six months, there are increasing signs that the tightening of monetary conditions is taking effect.

Semiconductor manufacturers, traditionally in the vanguard of any economic slowdown, say that demand has slackened, and that there may be little growth in output this year. The personal computer industry, a major beneficiary of the investment surge in labour-saving equipment, is beginning to trim back its forecasts. Car manufacturers believe that they have reached the top of the current demand cycle, and some chemicals producers feel that current levels of demand cannot be sustained.

Nevertheless, most analysts interpret these signals as evidence of no more than a modest downturn or stagnation in the current rate of industrial growth. Manufacturers, they say, can look forward to expansion in the OECD area economies of around 3 to 3.5 per cent this year against 4 per cent in 1988.

Moreover, industry should not have to worry unduly about inflation or rising wage demands if monetary policy works as planned. In most countries it is also felt that corporate profits and liquidity are strong enough for companies to weather increased debt financing costs relatively easily.

Yet against this relatively benign short-term outlook, industrialists have plenty of longer-term issues on their plates. Indeed, in many ways the underlying structure of world industry has rarely been as subject to potential change in the post-war era as it is today.

At the top of this list of concerns is the ambitious plan for market integration in the European Community by 1992. Abandonment of preferential structures is designed to bring about big improvements in efficiency and the use of resources. But the general gains for society would be accompanied by some specific problems for individual companies, about half of which, according to some estimates, might disappear in a more competitive climate.

Jockeying for position in this planned new Europe has already begun. Virtually every industrial sector and each large national conglomerate will be put under the microscope in this process. Indeed, the series of international takeovers and mergers announced over the past year or so demonstrate the scale of potential changes.

The takeover of Rowntree in the UK by Nestlé of Switzerland was a radical step in the restructuring of the European confectionery industry; the expansion of Daimler-Benz in West Germany into the aerospace and defence industries has sparked a series of cross-frontier talks in these sectors involving British Aerospace in the UK and a variety of French manufacturers; and the complex takeover battle over the future of Plessey and the General Electric Company in Britain has become a Europe-wide issue with the involvement of Siemens of West Germany and Thomson of France.

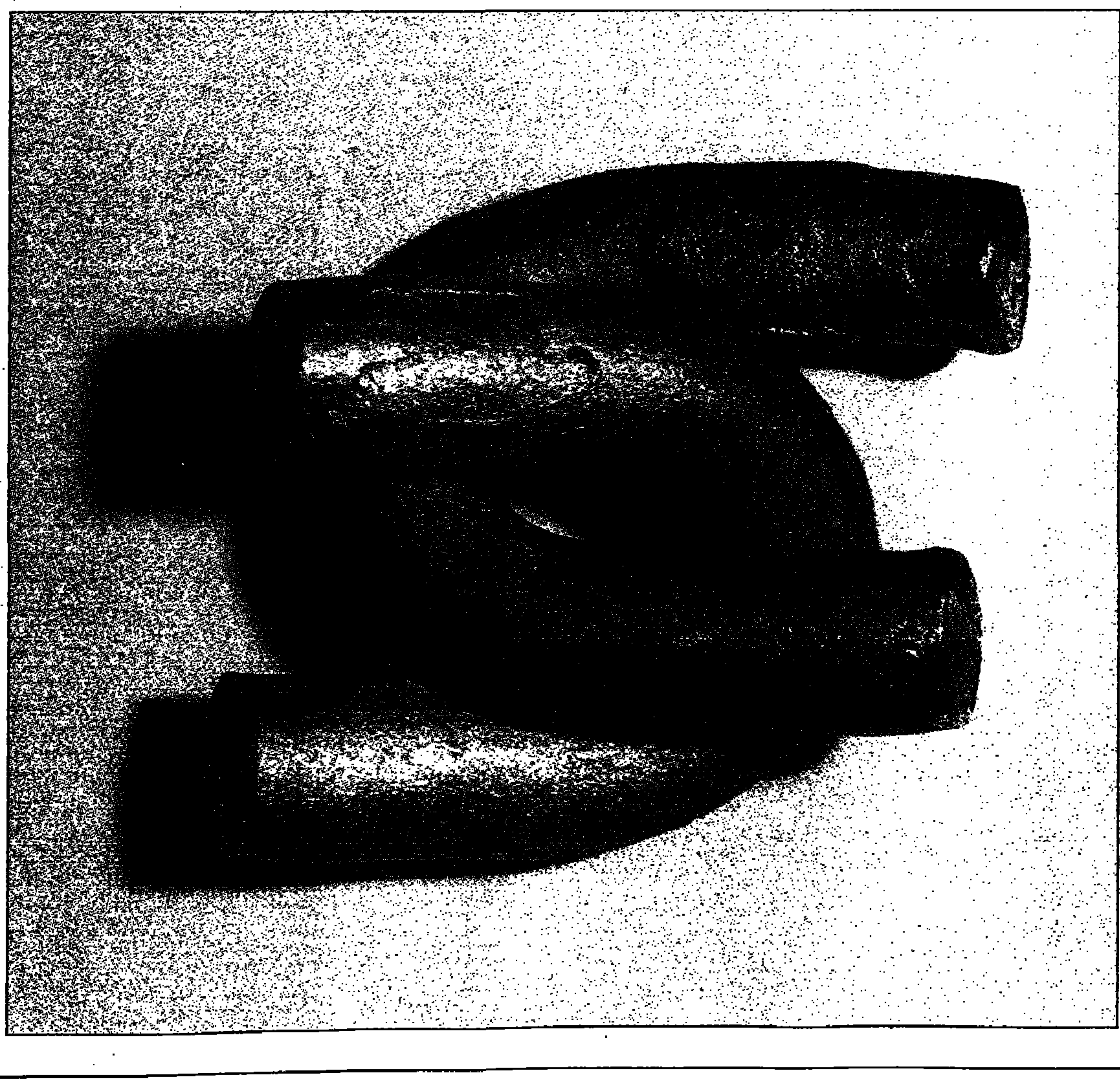
This rationalisation within Europe poses problems for outsiders, particularly American and Japanese companies. These groups see themselves being excluded from several key markets where they had been anxious to expand, while at the same time being put under increasing pressure to do business on Europe's own terms. As a result, non-European companies are looking increasingly at investment and takeover prospects in the region.

A second batch of structural problems can be grouped under the general heading of the globalisation of markets. These pull to some degree in the opposite direction to the forces many economists believe to be at play in the creation of the integrated European trading area. The emergence of the new Europe, it is often argued, could well lead to a decline in free trade and the rise of protectionism based on the three large producing zones of the US, Europe and the Far East.

Yet there are equally powerful forces pulling today in the direction of greater movement of goods and ideas across national boundaries and between these three trading blocs. Hardly any industrial sector is now immune to these pressures, which are emerging in a number of structural issues:

- **Component sourcing:** In the last decade, more and more manufacturers have begun to scour the world for components that are either cheaper elsewhere, or have some unique technological features not available in their home market.
- **Rationalisation in mature industries:** Several traditional industrial sectors continue to face such chronic overcapacity that manufacturers are being forced to look at international alliances or mergers. In the power station field, for example, some estimates suggest that up to 70 per cent of world productive capability is redundant, while the diesel engine industry has 30 per cent more productive potential than it needs.
- **Technology transfer:** Technology-based companies are increasingly adopting multinational functional structures and aiming for international markets because of the nature of their products. The issue here is the pace of product development and high cost of research and development. New products tend to have such a short life cycle that they need to be exploited internationally to generate cash for the next round of development.

All these trends point towards the development of companies able to bring together resources and expertise in different parts of the world. To achieve these ends, companies will have to find ways of entering new markets, often through mergers and acquisitions. This, in turn, suggests that the days of the old-style national conglomerate are numbered, as their role in different areas is taken over by specialist international companies. So for industrialists everywhere, the medium-term is likely to be one of increasing international involvement, spiced with the prospect of global alliances or takeover for the weak performers.



WORLD INDUSTRIAL REVIEW 2

The three major regional markets face a modest decline in demand

Soft landing likely to follow peak in sales

WORLD CAR sales have been on the crest of a wave in 1988, but demand is expected to fall in 1989 from last year's record levels with a modest decline in all three major regional markets of West Europe, North America and Japan.

The world motor industry has been enjoying record sales helped by peak demand in West Europe, Japan and the Pacific region and a marked recovery in the US car market.

Demand is believed to have grown by around 5 per cent in 1988 to an all-time high of 34.3m units, led by record sales in West Europe which took over from North America as the world's biggest car market in 1987.

West European car sales appear to be at the peak of an unprecedented boom, with record sales reached in each of the last four years. With the exception of West Germany, all the major European volume markets, the UK, France, Italy and Spain, have reached an all-time high in 1988 with Italy exceeding 2m units and Spain exceeding 1m units for the first time.

According to the latest world automotive forecast from DRI, the automotive consultants, the market has peaked, however, and sales in all the major European markets are expected to decline modestly this year, as a result of a slowdown in economic growth and under the impact of high interest rates dampening consumption.

Kevin Done on this page looks at the motor industry in Europe, the US and South-East Asia

Sales are forecast to decline in West Europe by 5.8 per cent to 12.037m units following an increase of 3.2 per cent in 1988 to a record 12.779m units.

Despite the forecast decline the absolute level of the European car market would still be higher than at any time prior to the past two years of record demand, and some leading European car makers expect a very soft landing with a decline of only 2-3 per cent this year.

The US car market has exceeded all expectations in 1988 and showed a rise of more than 3.0 per cent to 10.590m units, with Ford the biggest winner with a further jump in its US market share to 21.6 per cent from 20.2 per cent a year ago.

General Motor's failed in its ambition to arrest totally the sharp decline in its market share, which dropped slightly to just over 36 per cent from 36.5 per cent a year earlier. Its sales volume grew by about 2.5 per cent, however, and the US market leader is confidently forecasting that it will gain market share in both the US car and light truck markets this year.

The DRI report says that US car sales next year will fall by around 4.5 per cent to 10.19m units under the impact of rising interest rates, an upward trend in consumer prices and limited growth in consumer spending.

Some US vehicle manufacturers are confident, however, that the combined car and light truck market could again exceed 15m units. This would be the fifth year in succession, and would mark an unprecedented run of strong markets in the US industry.

In the Japanese domestic market sales have jumped sharply in 1988 and are expected to show an increase of more than 10 per cent to reach a record 3.61m units supported by strong economic growth and accelerating consumer spending.

Here, too, sales are expected to fall marginally in 1989, however, in the expectation of imminent tax changes, before rising to a new peak in 1990.

'Demand is believed to have grown by around 5 per cent in 1988 to a high of 34.3m units'

Car demand is booming in Taiwan and South Korea and is expected to stay on a strong upward trend into the mid-1990s, while sales in Brazil are recovering though still far below the record levels of the early 1980s.

DRI estimates that worldwide car production has risen by 3.7 per cent in 1988 to a record 34.3m units, led by a gain of some 400,000 units in West Europe to a peak 12.9m units.

It warns that 1989 is expected to bring a sharp decline of 5.2 per cent, however, to 12.2m units, despite a series of important new model introductions.

Car output in both North America and Japan is also expected to decline in 1989 with a fall of 2.6 per cent in North America and 6.6 per cent in Japan. According to the DRI forecast Japanese domestic car output will have peaked historically at 8.040m units last year, but will fall back to around 7.5m units during the early 1990s as export growth is halted by growing offshore Japanese production.

Japanese transplant operations in the US started as relatively unprofitable ventures to fend off protectionist measures by the US, says the DRI report, but they have become "an economic imperative as a result of the soaring yen. The US now offers a lower cost production base than Japan."

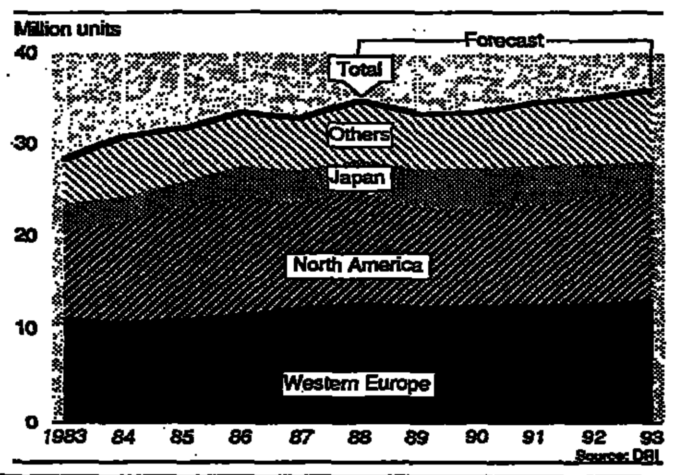
The capacity of Japanese operations in the US which stood at 648,000 units (including the GM-Toyota NUMMI joint venture) in 1987 is set to rise to 2.12m units in 1990 and 2.68m units in 1992. The most aggressive expansion is being made by Honda which should have a US capacity of 700,000 units a year by 1992.

In 1988 Japanese producers began exports from the US to restricted markets like Taiwan and South Korea, as well as to Japan itself, and Europe is expected to become the next target.

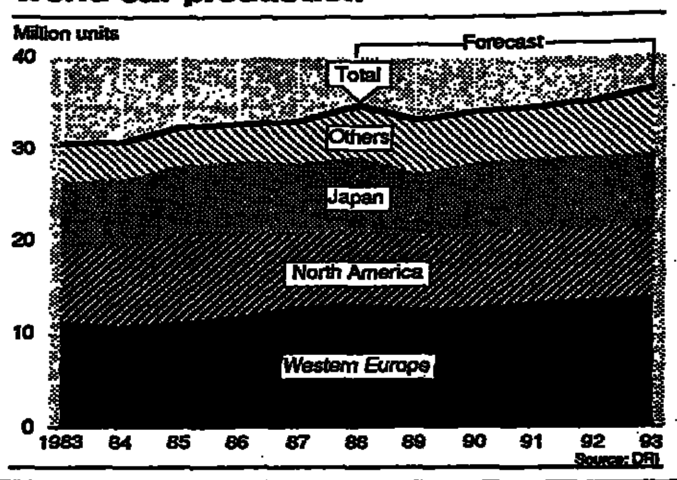
At the same time the DRI report forecasts that direct car imports to the US from Japan will decline to around 1.8m units in 1991, equivalent to only 79 per cent of the current 2.3m units "voluntary export restraint" agreed by Japan with the US.

Car output in South Korea is estimated by DRI to have risen by 12 per cent last year to 886,000 units, an almost sixfold increase in the last five years. The DRI forecast suggests that output will exceed 1m units for the first time this year and South Korea is expected to overtake the UK as a car producer in 1990.

World car sales



World car production



UNITED STATES

More record orders are forecast

THE US auto industry is confidently expecting the boom of the last four years to continue in 1989 with several senior executives forecasting another year of vehicle sales – cars and trucks – in excess of 15m units.

Ford, the world's second largest automotive group which has been enjoying a run of record profits, is the most optimistic. It expects US vehicle sales to reach 15.4m units – 10.2m cars and 5.2m trucks – only a small decline from 1988 sales of 15.8m, the second best year ever.

Last year was the fourth successive year that total industry sales had exceeded 15m units, "an unprecedented mark in the history of the industry," according to Mr Roger Smith, chairman of General Motors, the world's biggest automotive group. "A favourable economy should propel 1989 US vehicle sales to the vicinity of 15m units for the fifth consecutive year," Mr Smith said in Detroit earlier this month.

Following the crisis years at the beginning of the 1980s the industry has recovered strongly.

"It's a tribute to this industry that we began the decade on a very low note with a recession that lasted three years and then proceeded to establish new peaks in the sales of cars and trucks," says Mr Thomas Hanna, president of the Motor Vehicle Manufacturers Association. "The pattern has been set for the 1990s. While the sales graphs will experience upturns and downturns, there is no doubt that fresh records will eclipse even the achievements of this decade."

The best previous sales streak occurred from 1976 to 1978, just before the Iranian hostage crisis. Retail vehicle sales for those years were 13.3m in 1976, 14.8m in 1977 and 15.4m in 1978.

During the boom years of the mid- and late 1980s sales have climbed from 12.3m in 1983 to 14.5m in 1984, 15.7m in 1985, 16.3m in 1986 – the record year – 15.2m in 1987 and 15.8m in 1988.

The 1980s have been particularly marked by the fact that the pickup truck has become fashionable to drive as a passenger car. Nearly 5m trucks were delivered in 1987 with more than 4.6m in the compact and light-duty category. Truck sales set a new record last year at 5.2m units, the fifth consecutive record for light truck deliveries.

Ford's F-series full-size pickup was the best-selling vehicle – car or truck – in the US last year.

Last year's vehicle sales of 15.8m comprised 10.6m cars and 5.2m trucks, compared with the 1987 totals of 15.2m – 10.2m cars and 5.0m trucks. Sales were strengthened in 1988 by the buoyancy of the general economy but also because various forms of manufacturer and dealer incentives have become a permanent fixture of the US market.

The manufacturer-funded incentives paid off for the big three domestic US vehicle makers in terms of added volumes and higher market share.

Despite sharp losses of car market share in the last couple of years, General Motors still holds a dominant lead with

Mr Roger Smith, chairman of General Motors

35.6 per cent of the overall car and truck market, up slightly from 35.0 per cent in 1987. It gained about two-and-a-half percentage points of the truck market but lost over a third of a point in car market share.

GM has been for many the yardstick of how the US automotive industry could cope with the new challengers springing up in the North American market. The jury is still out on whether the mammoth investments undertaken in the last decade have been enough, but the next two years will see the company unleashing more new products than at any time in its 80-year history. GM has already forecast that it will gain a full percentage point of car and truck market share in 1989.

Mr Robert Stempel, GM president, says that the transformation of its facilities is almost complete with 8 new and 19 refurbished assembly plants up and running. "I don't think any other manufacturing company has ever undertaken such a massive rebuilding programme. It was costly, but we're convinced it will pay off in the long run." As GM's massive building programme winds down it is devoting an increasing share of its capital spending to product programmes, which will account for about 40 per cent of the total in 1988 and 1989, compared with 24 per cent in 1986.

The biggest winner last year was Ford, which gained just over one percentage point more of the car and truck market to reach 24.2 per cent.

As the US domestic industry – which now includes several Japanese plants – gained confidence it also managed last year to outdo the importers, who actually lost market share in 1988. Imported car sales dropped over the previous year by 2.5 per cent to just over 3m and accounted for nearly 29 per cent of the market compared with almost 31 per cent in 1987. The biggest falls in sales among the importers were recorded by Audi, Porsche and Yugo.

Despite the recovery of the last couple of years, the US auto industry environment today is even more testing than most feared. "Today there are more competitors in the North American market than any of us ever expected," says Mr Robert Stempel, president of General Motors of the US, the world's biggest automotive concern.

At the beginning of the 1980s the industry was talking about "world cars", a few vehicles that would be sold in all parts of the globe, and of the likelihood that the number of manufacturers would decrease. "Today 27 major manufacturers produce more than 40 brand names for the US market and, unlike the view in the early 1980s, we now expect more manufacturers, many more, to join us in the world's richest automotive market."

The Japanese automakers are well on their way to establishing a production capacity of more than 2m units a year in North America. Cars began running off the assembly lines at several new Japanese plants last year including the latest, Toyota's $800m car assembly plant in Georgetown, Kentucky, which will be capable of producing 200,000 units a day by the early 1990s.

The expansion by the Japanese vehicle makers in the US has already entered a new phase as the components suppliers follow the vehicle makers into the market. Most attention has focused previously on the assembly plants themselves, but they are being followed by a wave of suppliers as the Japanese build a replica of their domestic industry in the US. Several engine plants have already been announced – Toyota has a $300m engine plant under construction as part of its $1.1bn complex in Kentucky – and as the necessary volumes are reached transmissions plants will follow.

According to Mr Harold Poling, vice chairman and chief operating officer of Ford, "Some 150 Japanese auto parts

Continued on page 5

Nissan in the UK: how free will EC markets be?

WESTERN EUROPE

Mounting challenges

THE unprecedented surge in new car sales since the mid-1980s has established Western Europe as the biggest car market in the world – it took over from North America in 1987.

More cars were sold than ever before in Europe in 1988 and new car registrations reached a record level for the fourth successive year.

According to preliminary estimates, new car sales in Western Europe jumped by 4.6 per cent last year to almost 13m.

Several national markets have set all-time records and new car sales have exceeded 2m units in Italy and 1m units in Spain for the first time.

Most car makers are forecasting that the market will fall back slightly from this exalted peak during 1989, but at worst they expect a soft landing with a weakening of sales in the range of only 3-5 per cent.

The Western European motor industry has been in ebullient mood as profits and production have surged.

After years of being dogged by overcapacity, European car makers have been preoccupied more with efforts to squeeze out additional vehicles to meet a level of demand, which, almost without exception, they have under-estimated. Several are seeking to increase capacity, in the case of Peugeot of France by as much as 20 per cent by the early 1990s.

The boom is temporarily serving to mask the mounting challenges and pressures confronting the European industry, however.

In the last 10 years the motor industry has become increasingly global in scope and character, and European producers will face a new scale of competition during the 1990s as vehicle makers from Japan, the US and the newly industrialising countries seek to gain a growing share of the world's most dynamic car market.

According to Professor Garel Rhys, professor of motor industry economics at Cardiff Business School, the motor industry in Europe is currently "in the eye of the storm". Despite the present record demand for new cars in most European markets, the industry will again face the looming threat of overcapacity in the 1990s.

The £610m investment by Nissan, the second largest Japanese automotive group, to build a 200,000 units a year car plant in north-east England, is only the first of several expected moves by the Japanese industry to set up new assembly capacity in Europe, as they prepare to take advantage of the creation of a single market in the European Community in the early 1990s.

Toyota, Mitsubishi, Subaru and Suzuki have all made clear that they are studying the feasibility of establishing assembly plants in Western Europe or of linking with established European producers, while Honda has already forged a production link with Rover Group in the UK and is building its own engine plant in southern England on a site with ample space for later expansion into vehicle assembly.

The setting up of production capacity in Europe marks a new stage in the global expansion of the Japanese motor industry. It is causing profound disquiet among some European vehicle makers and governments, since it appears that the days of national import restrictions are numbered.

According to Mr Daniel Jones, European director, and Mr James Womack, research director of the International Motor Vehicle Programme, a four-year, 15-country study of the world motor vehicle industry co-ordinated by the Massachusetts Institute of Technology, there is a cause for concern about the competitiveness of the European motor industry in the 1990s.

Profits and production have surged for many Western European vehicle producers since the mid-1980s

"A worldwide survey of assembly plant performance indicates that the average Japanese plant in Japan can produce a car of comparable complexity and specification with half the human effort (both shop floor and managerial) needed in European-owned plants in Europe. Even the Americans manage to do much better on average and the best American-owned plants in North America are comparable in productivity to the average Japanese plant in Japan."

There is continuing confusion over framing both an external and an internal trade policy for the European motor industry as part of realising the vision of a single market in Europe in the 1990s. Tensions exist between those seeking the creation of a "fortress Europe" and those accepting that the battle in tomorrow's motor industry will be fought on a global scale, and that no trade barriers can hope to insulate European producers from the fray.

During the 1990s Europe will have to look, too, at the US as a potential source of a new wave of imports, both from US and Japanese producers, as well as at the rapidly emerging motor industries elsewhere, particularly in South Korea. The potential for trade conflict is not only with Tokyo.

Most crucially, the EC must decide a common stance towards Japanese imports and the removal or easing of the present bilateral restraints which severely restrict Japanese penetration, in particular, of the Italian, French and Spanish vehicle markets.

Linked to this issue is the vexed question of whether Japanese transplant operations in Europe should be subject to minimum local content regulations – the UK and France have already been at loggerheads on this issue over the right of free circulation in EC markets for Nissan's UK-built cars. At the same time, it is far from clear what investment regime will be implemented by Brussels to control the granting of state subsidies to attract the expected surge of Japanese inward investment.

Meanwhile, the battle for leadership of the European market has intensified with Volkswagen of West Germany and Fiat of Italy tying in a virtual dead heat in 1988.

The European car market is dominated by six volume car makers Volkswagen, Fiat, Peugeot, Ford, General Motors (Opel/Vauxhall) and Renault which all have shares of between 10 and 15 per cent.

Fiat, already uncontested as Europe's most profitable car maker, was expected to end Volkswagen's three-year leadership of the Western European car sales league, having built up a formidable lead in the early months of the year.

It led all year and was still ahead after the first 11 months, but preliminary industry estimates suggest that it was caught by Volkswagen on the final lap, with each selling some 1.93m cars in 17 Western European markets, giving both a European market share of 14.9 per cent.

Behind VW and Fiat is the French Peugeot group, which includes Citroen, and it is most determinedly giving chase to the leaders. Peugeot produced the best performance of all the volume car makers in Europe last year with an estimated 13 per cent jump in sales volumes to 1.67m units, despite a heavy setback in the West German market.

In 1987 it pushed Ford down into fourth place in the European sales league and last year raised its market share to 12.9 per cent from 12.1 per cent a year earlier. It is planning to increase capacity by some 20 per cent by the early 1990s and Mr Jacques Calvet, Peugeot chairman, has made no secret of his ambition to secure market leadership by 1992.

The weakest sales performance came from Ford last year, which was hit by a two-week strike at its UK plants in February and suffered a 1.2 per cent fall in European sales volumes.

JAPAN

Moving from volume to quality

THE Japanese automotive industry, now the most export-oriented in the world, has been forced to make fundamental shifts in strategy in the last couple of years.

In response to the severe export conditions brought on by the rapid appreciation of the yen, trade friction with West Europe and the US and the maturing of the domestic market, Japanese vehicle makers have begun to move away rapidly from their previous dependence largely on domestic production and direct exports.

It is forecast that by 1990 Japan's car makers will have around 20 per cent of their annual production located in the US, compared with less than 10 per cent in 1985.

At the same time, Japan, which took over from the US as the world's largest single producer of automobiles in 1980 and has held the position ever since, is placing greater emphasis on domestic demand and is also moving from volume to quality.

In the last three years Japanese vehicle producers have implemented an extraordinary cost-saving programme designed to combat the impact of what, in effect, has been an appreciation of the yen by as much as 90 per cent against the US dollar between September 1985 (the date of the Plaza Accord on exchange rates) and the beginning of 1989.

According to a review published by the Japan Automobile Manufacturers Association, the profits of the 11 Japanese auto makers peaked in 1985 at Y1,006.1bn (£4.5bn), but fell by 38 per cent a year later to Y625.4bn under pressure from the rapidly rising yen which squeezed the profits on exports.

The Japanese vehicle producers were forced to raise their dollar-denominated prices – by 30 per cent from autumn 1985 to May 1988 – but, most importantly, they mounted an austerity programme described by Japanese industry observers as "squeezing water out of a dry rag".

The efforts have been successful in that the downward trend in profits was already reversed in 1987 with an increase of 24 per cent in profits over 1986, despite the continuing appreciation of the yen.

Japan has been the world's largest car producer for the last eight years

According to Mr Kazuyuki Matsumoto and Mr Shiouchiro Kikuchi, economists at the Japan Development Bank and authors of the JAMA published review, vehicle makers' success in turning the profits tide has stemmed from several factors.

The share of bigger and better-equipped high value-added vehicles has been increased. At the same time, Japanese producers have managed to bring forward programmes for further rationalising production processes, while also driving down procurement prices for components.

More broadly, Japanese auto makers have also benefited from the drop in the price of imported materials and energy caused by the yen's appreciation and the fall in crude oil prices.

The Japanese automotive industry is steadily increasing the value of parts and materials purchased outside Japan. Toyota, the country's leading automotive group, made overseas purchases of vehicle components valued at $600m (£340m) in 1987, an increase of 36 per cent over the previous year. The re-sourcing of components is moving towards lower cost countries such as South Korea, Taiwan and Thailand.

The key focus of the Japanese auto makers' internationalisation strategy has hitherto been on the US, although this is expected to move increasingly to West Europe during the 1990s, as the North American presence is consolidated and new opportunities are created in Europe by moves towards a single market in the European Community.

The Japanese transplant operations in North America started out as relatively unprofitable ventures to head off protectionist measures in the US, but they have become an economic imperative as a result of the soaring value of the yen.

According to DRI Europe, the London-based automotive consultants, "the US now offers a lower-cost production base than Japan, while the similarly low price of US componentry encourages as high a level of US content as possible."

The latest DRI World Automotive Forecast Report says that the capacity of Japanese operations in the US (including the New United Motor Manufacturing-Toyota joint venture with General Motors) stood at 648,000 units in 1987, but it is set to grow to 2.12m units in 1990 and 2.68m units in 1992.

The biggest capacity in the US is being created by Honda which expects to be able to produce more than 700,000 cars in the US by 1992. Last year saw the beginning of exports from the Japanese transplant operations in the US to otherwise restricted markets in South East Asia such as Taiwan and South Korea, as well as to Japan itself, and it is expected that Japanese-badged exports from the US to West Europe will begin at some stage during the early 1990s.

Manufacturers are now placing greater emphasis on meeting domestic demand

In contrast to this rapid build-up of Japanese production in the US, direct vehicle exports from Japan to the US are expected to decline to around 1.8m units in 1991, equivalent to only some 79 per cent of the current 2.3m units voluntary restraint agreement (VRA) on Japanese car imports to the US.

Car exports to the US, which accounted for 49 per cent of Japanese vehicle exports in 1987, totalled some 2.214m units in the fiscal year 1987, the first time that the 2.3m units VRA limiting quota was not reached since it began in 1981.

Exports of completed vehicles from Japan peaked at 6.731m units in 1985, and were followed by a decline of 1.9 per cent in 1986 and a further drop of 4.5 per cent in 1987.

Total output may well have peaked historically last year, too, at around 8m units. According to the latest DRI forecasts, the growing volume of offshore production and the expected softening in world car markets will combine in the short-term to reduce Japanese car production to a little over 7.5m in 1989 and to an average of 7.6m a year during the early 1990s.

Domestic car demand in Japan reached a record of around 3.61m units in 1988. Accelerating consumer spending in Japan appears set to ensure increased demand for cars as well as higher average unit values, which should bolster profits.

With a more liberal tax structure likely to be introduced in 1990, a small decline is expected in domestic registrations in 1989 as consumers defer purchases to benefit from the tax reductions. DRI says that "a new high is expected in 1990, however, as a result of this pent-up demand and of falling real car prices due to lower purchase tax rates."

WORLD INDUSTRIAL REVIEW 3

Peter Norman examines prospects for the world economy

Favourable outlook tempered by risks

A SURPRISINGLY buoyant world economy in 1988 has generated hopes that this year will see steady growth with relatively low inflation in the industrialised world.

The Paris-based Organisation for Economic Co-operation and Development, for example, believes that its membership of 24 industrial countries will register real economic growth of 3.25 per cent this year and 2.75 per cent in 1990 after growing at an unexpectedly strong 4 per cent annual rate since mid-1987.

Although the present economic upswing is over six years old, the OECD believes inflationary pressures can be contained. It projects inflation averaging around 4 per cent this year and next among its members after 3.5 per cent in 1988.

A year ago, anybody suggesting such satisfactory developments in 1988 or such encouraging prospects for 1989 would have been dismissed as a dreamer or a fool. At that time, the global stock market crash of October 1987 was fresh in policy makers' memories and many pundits were predicting global recession.

The crash helped pave the way for today's more optimistic outlook. It taught the Group of Seven leading economic powers — the US, Japan, West Germany, France, Britain, Italy and Canada — that economic policy co-operation is essential

With hindsight, however, the crash helped pave the way for today's more optimistic outlook. It taught the Group of Seven leading economic powers – the US, Japan, West Germany, France, Britain, Italy and Canada – that economic policy co-operation is essential. The prompt decision of the central banks of the G7 and other industrial countries to pump liquidity into the world economy after the crash kept businesses alive and boosted confidence.

That successful crisis management enabled already strong expansionary forces in the world economy to reassert themselves shortly afterwards. The continuing benefits of the 1986 oil price decline; increased business confidence from the fall of inflation during the 1980s; generally moderate wage increases and improved corporate profits in most countries together with a sudden surge in productivity last year combined to produce a world-wide investment boom.

The growth of non-residential private investment accelerated in the OECD countries to around 11 per cent last year from 5 per cent in 1987, providing encouragement that economic growth can continue.

However, the favourable outlook for the world economy is, as always, tempered by risks and uncertainties.

The serious imbalance between the huge US current account balance of payments deficit and the large surpluses of Japan, West Germany and the newly industrialising economies of South East Asia is proving slow to correct. Although strong growth of more than 20 per cent in US export volumes helped cut the US current account deficit by more than $20bn to an estimated $132bn in 1988, the Japanese and West German surpluses have shown few signs of contracting.

Indeed, according to the OECD, West Germany's current account surplus is likely to rise this year to around $51bn from $45bn in 1988 because of growing trade surpluses with its European neighbours. Such imbalances carry the ever-present risk to growth of a run on the dollar and turmoil on financial markets.

Inflation, although low by the standards of the 1960s and 1970s, is showing signs of resurgence. Its revival has already prompted a Draconian increase in short-term interest rates in Britain. With virtually full employment and capacity constraints in industry, there are strong fears that US inflation could break out of its present 4 per cent to 4.5 per cent range forcing the US monetary authorities into a drastic tightening of policy. Because of the high level of personal and corporate indebtedness in the US, such action could quickly bring growth to an end.

The US itself now counts as an area of risk for the world economy. The US Federal Reserve Board, which has been tightening monetary policy for some months, is carrying the entire burden of curbing inflation. It is still unclear whether the new Bush administration will be able to generate the necessary political will or consensus in Congress to cut the budget deficit.

Although some financial commentators argue that the US budget deficit can be easily financed, the non-US G7 members believe that a cut from the $155bn deficit recorded in fiscal 1988 is vitally important for the world economy. With chronically low personal savings in the US, the budget deficit provides unneeded stimulus to domestic demand. The emergence of the US as the world's largest debtor nation has acted as a drain on world savings.

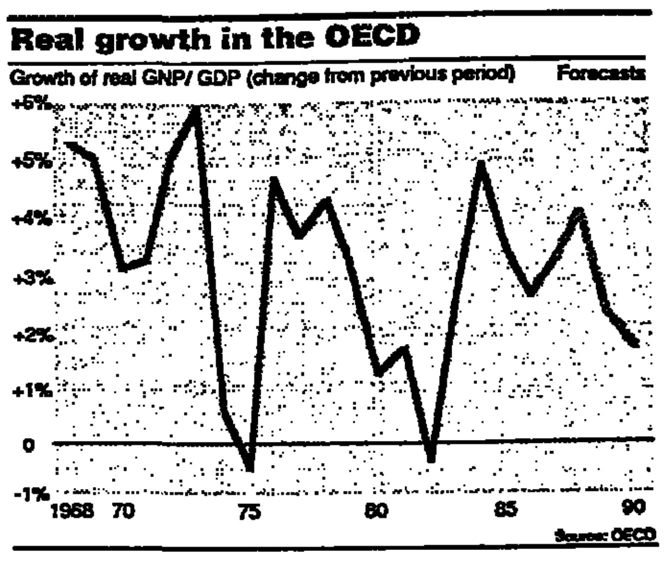
Elsewhere, the third world debt crisis rumbles on. Last year brought recognition in the G7 that the most impoverished African debtor countries would be unable to survive without some form of official debt forgiveness. There is no sign, however, that the major countries will agree to similar assistance for the middle income debtors of Latin America.

While it no longer appears to threaten the world's financial system, the debt crisis inflicts slow growth on parts of the Third World and inevitably limits trade and diminishes global growth prospects.

In the industrial countries, the existence of 28.5m unemployed, of whom around 18.5m are in Europe, shows much must still be done by way of deregulation, general education and vocational training before the benefits of six years of economic growth reach all levels of society.

As 1989 began, a threatened trade war between the US and the European Community over an EC ban on imports of hormone-treated US meat served as a reminder of how fragile are the foundations of continued global economic prosperity.

Real growth in the OECD



Terry Dodsworth on takeover and merger activity

Key industries reorganise

THE extraordinary increase in world takeover activity which began to emerge five years ago in the US is showing no signs of abatement. Indeed, the scramble to reorganise several key industries is likely to accelerate over the coming year, driven by factors that go way beyond the asset-stripping moves that first sparked the US merger boom.

Several themes run through this new phase of restructuring.

First, takeovers are increasingly becoming an international issue. European companies, led in particular by UK businesses, have embarked in the last few years on a spending spree in the US. British groups alone spent $30bn in America last year, according to Mr Mark Dixon, who monitors transatlantic activity in the British American Review.

At the same time, cross-frontier mergers in Europe are growing in importance – as, for example, in the international bid battle involving GEC and Plessey in the UK, and Siemens in West Germany. And Japanese companies are beginning to shed their traditional caution towards acquisitions, as shown in Sony's $2bn purchase of America's CBS records and Bridgestone's investment in Firestone, one of the leading US tyre companies.

Second, the driving force in takeover activity is moving towards industrial restructuring rather than financial manoeuvring.

This does not mean that the leveraged bid techniques which were developed in the US in the early 1980s have disappeared. Indeed, while there are large dormant assets to be realised and liquid resources to finance takeovers, this type of acquisition, in which mountains of debt are supported by low amounts of equity, is likely to continue.

Nevertheless, the thinking behind many recent bids has been based on industrial reorganisation in which companies are trying to strengthen their position in particular manufacturing or service sectors. At the same time, many companies are deliberately divesting divisions outside these main lines of activity, moving away from the conglomerate philosophy which emerged so strongly in the 1960s.

Third, this industrial restructuring is being carried out on a semi-global scale, with European and US companies participating vigorously. Japan as yet remains virtually closed to takeovers from overseas, but Japanese companies are beginning to play a role in overseas acquisitions themselves, particularly in the US, where they spent around $10bn last year.

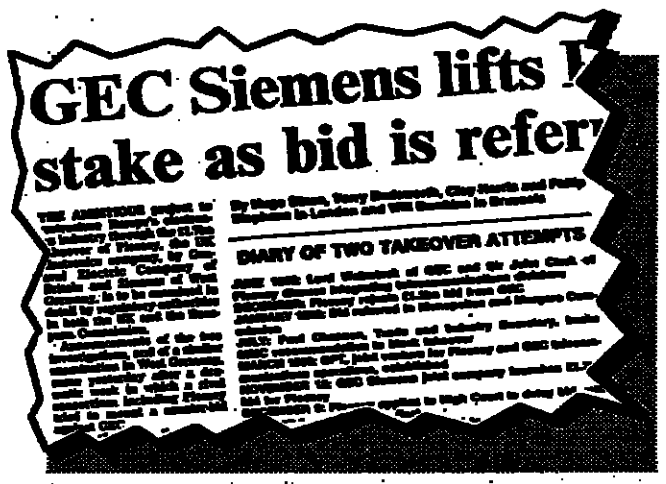
These purchases are allowing companies to establish stronger international operations in specific fields. Many international groups, such as General Electric in the US, have clearly defined objectives of world market leadership in specific sectors, and are willing to dispose of assets if they cannot achieve that.

Hence Nestlé, the Swiss confectionery and foods company has bought Carnation in the US and Rowntree in the UK; Thomson of France has acquired the RCA television business in the US to become one of the two leading world producers; and Siemens has just purchased Rolm, one of the biggest US producers of office telephone exchanges, to try and consolidate its strong international position in this sector.

Fourth, companies in mature industries are looking for cost reductions and increased market penetration through rationalisation on an international scale. This process is now well under way in the power engineering industry, where a wave of mergers has swept across Western Europe. It has also emerged in domestic appliances, where the industry in the US and Europe is being concentrated in fewer and fewer hands, and other sectors such as mechanical handling equipment.

Fifth, high technology industries are looking for greater international presence as a means both of increasing distribution and of defraying research and development costs.

Research funding is becoming a particularly important issue as the hardware manufacturing element in new equipment declines in proportion to software. Because many products are now software-based, they have also become more amenable to swift changes based on software redesign. Hence product life-cycles are shortening – with a resulting pressure to maximise income from new development swiftly through exploiting the technological lead internationally.



These pressure lie behind the series of takeovers in the telecommunications field, such as the acquisition by Alcatel of France of ITT's activities in Europe. They have prompted a similar trend in the semiconductor industry – notably the merger of SGS of Italy and Thomson's chip activities in France – and produced several acquisitions in the computer sector.

Finally, the move towards the lowering of trade barriers in Western Europe is beginning to prompt a re-think of the region's industrial structure. Companies that have traditionally had privileged positions in their domestic markets are now jockeying for position as they face the possibility of competition at home and the opportunity of expansion overseas.

This is particularly true in areas of large-scale government procurement such as defence, aerospace and telecommunications. But it is also affecting industries such as computer manufacturing or banking, where governments have historically maintained controls of one sort or another.

All of these trends should continue to be evident in the next 12 months. There is likely to be a particular emphasis, however, on the European element. Companies around the world are beginning to scramble for assets in Europe as they become increasingly convinced that the European Commission's aim of achieving the internal market by 1992 is backed by a genuine commitment.

One element in this intensification of merger activity will be the movement of more European companies across previously impermeable national boundaries.

French groups, responding to raids in their home market, have begun to show much heightened interest overseas, particularly in West Germany and the UK, where they are aiming to invest in the privatised water companies. German industry is equally on the move, with innumerable small purchases throughout the Continent.

These changes within Europe are likely to be matched by increasing attention from outside as well. Both US and Japanese companies could be beneficiaries of the internal market policy because they already tend to treat Europe as a single large region. But at the same time, they are worried that the lowering of internal European trade barriers could lead to stronger Community-wide position against outsiders. They are therefore under pressure to invest or acquire production activities in the region.

"Japanese companies are faced with a dilemma on acquisition policy," says Mr Dixon, "because they are undecided about whether to concentrate their investment on the US or Europe. The Americans, on the other hand, have a clear view. They cannot acquire in Japan because companies will not sell to them. Hence Europe is a target."

Profound change is most harshly affecting a mature sector

Cheaper solutions hit mainframes

Alan Cane examines prospects for the computer manufacturers

SLUGGISH GROWTH in mainframes, a fierce battle in the mid-range market and a slowdown in personal computer sales – that is the likely outlook in 1989 for an industry which is still reluctantly coming to terms with changes more profound than anything it has experienced in the 40 years of its existence.

These changes, driven by the increasing availability of massive computing power at low cost and by unprecedented co-operation between computer manufacturers over common computing standards, are being felt in every part of the industry but most harshly in the mainframe sector. Growth there, at just over 5 per cent a year, is a mere shadow of its former rude state of health, as the sector matures and as commercial users find cheaper ways of processing their data using minicomputers, personal computers and workstations.

It would be wrong to infer, however, that the mainframe market is dying. Far from it; there are a substantial number of data processing tasks which are simply not ready to be delegated to microcomputers or super-minicomputers, no matter how powerful.

Furthermore, surveys such as the Price Waterhouse analysis* of the opinions of some 2,500 data processing executives in five developed countries, suggest that most companies intend modestly to increase their spending on data processing equipment in 1989, after three years of determined efforts by top management to control computer costs.

Whether existing mainframe vendors will retain their present share of the market is another question. International Business Machines still dominates this sector with more than 60 per cent of the mainframe market world-wide, but it now faces new and redoubtable competition from Japanese makers of computers functionally to IBM's and able to run IBM software.

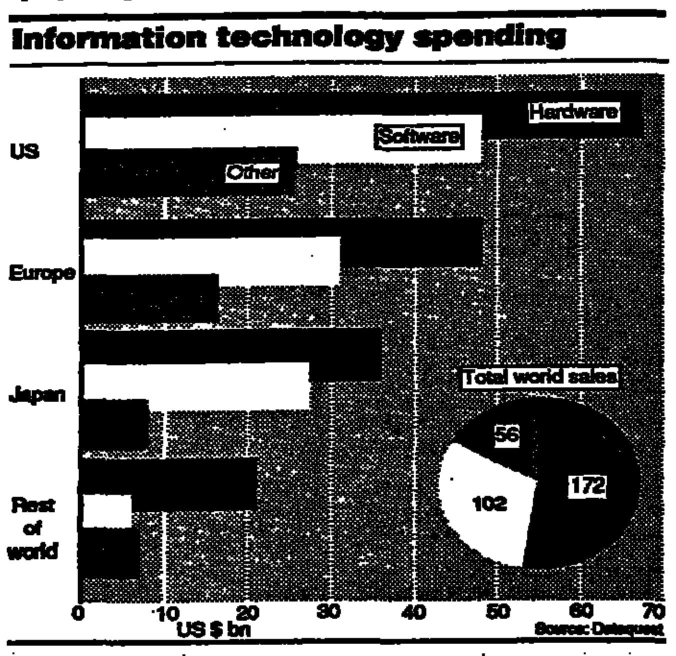
Fujitsu, the leading Japanese "plug compatible" manufacturer has now, as a result of arbitration settled late last year, access to sizeable amounts of IBM's operating software.

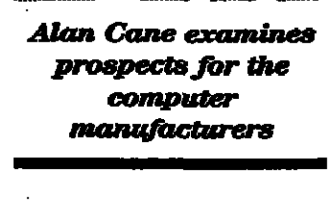
While a new generation of IBM's largest mainframe family is not expected until 1990, Fujitsu will next year launch new commercial mainframes based on the technology of its VP-2000 supercomputers which should give yet another dramatic breakthrough in price performance. There is also the question of how many individual mainframe manufacturers can survive the inevitable pressures for rationalisation as the market matures. Honeywell, for example, is now effectively out of the computer business, having sold at the end of last year much of its stake in the US/French/Japanese manufacturer Honeywell Bull to Groupe Bull of France.

Many argue that NEC's 15 per cent share in the company gives it principally an effective marketing channel to the West for its large machines.

Unisys, product of the merger of Sperry and Burroughs, is looking for fresh acquisitions in its quest to become IBM's principal adversary.

Would NCR, now making a respectable living out of its expertise in financial technology, fit its bill? Or Control Data, which is still grappling with financial difficulties despite a successful new range of supercomputers? The mid-range market, strategically important because of its growth potential, is dominated by a battle for leadership between IBM and Digital Equipment. According to industry experts, this market is set to grow at more than 10 per cent in 1989 through a combination of sales to first-time computer users, small companies looking for a step up from personal computers and larger organisations decentralising computer power.





In simplistic terms, the battle is between DEC's range of compatible, connectable VAX minicomputers and IBM's new and seemingly successful AS/400 systems. In practice, there are a large number of manufacturers in the field any of whom could seize a chunk of the market including Unisys, NCR, Wang and Hewlett Packard.

It is an area where European manufacturers like Norsk Data of Norway, Nixdorf Computer of West Germany and ITL of the UK have in the past successfully maintained niche markets. These companies in 1989 came under considerable pressure, however. Nixdorf, for example, plans to eliminate 1,600 jobs or 5 per cent of its workforce by the end of this year to cut costs and improve profitability. Nixdorf chairman, Mr Klaus Luft, blamed intense price competition and a cutback in spending by financial institutions.

Last year was characterised by a series of very public battles between on the one hand, IBM and a sometimes surprising set of supporters and on the other, the rest of the industry. There seems no likelihood of a quick end to hostilities.

The differences between super-microcomputers and mid-range machines, for example, have largely been buried in an industry-wide argument about the best operating software to run on such machines. Everybody agrees, on the surface at any rate, that customers, manufacturers and software developers alike would benefit from common, industry standard operating software.

Most agree that Unix, developed originally by AT&T, is the best choice. But which version of Unix? AT&T and a group of manufacturers including Sun Microsystems, the most aggressive of the super-micro vendors, believe AT&T's version should become the standard.

The Open Software Foundation, led by IBM, has its favourite version. After months of talking, the two groups are in a state of stalemate. This year may see the emergence of a single common Unix, but which camp will be first to capitulate?

One of British Telecom's new mini-computers. Convergence between telecommunications and data processing will become increasingly common

IBM is still without much support from its competitors for its new MicroChannel Architecture (MCA), a design of microcomputer which exploits the power of the latest chips, but which does not allow customers to run their old personal computer software.

This year will see the emergence of EISA (extended industry standard architecture), an alternative design created by a group of manufacturers, lobby led by Compaq of the US. This design, said to give all the advantages of MCA without incompatibility problems, may simply arrive too late to hurt IBM.

While personal computer sales are expected to sag somewhat in 1989 after some years of powerful growth, there is still expected to be a healthy market for industry-standard personal computers, especially those using the latest 32-bit chips.

There will continue to be fierce price competition with companies like the little-known US manufacturer Everex setting the pace. US securities house, Goldman Sachs, notes: "With nearly 250 in-house engineers focused in new product development and manufacturing, Everex designs cost out of its products.

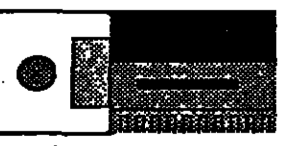
"It prices its products up to 50 per cent below the list prices of its competitors. The company's direct distribution and low-cost design and manufacturing enable it to be so aggressive".

The mainframe market may be close to full maturity; the personal computer market is clearly scarcely out of its infancy.

* *Managing Information Technology International Survey, 1989; available from Price Waterhouse; 1, London Bridge, London, SE1 9QL.*

SOFTWARE

Moves to rationalise



Growth is likely to continue at 20 per cent a year, writes Alan Cane

THE COMPUTING services business world-wide is distinguished by the fact that in spite of its age – 25 years by most reckonings – and the vigorous nature of its development, it is only just beginning to show the conventional signs of industrial maturity.

These include moves towards rationalisation among the thousands of tiny companies which constitute the industry, a growing desire for professionalism and the emergence of a few companies which might become market leaders in an industry without real leadership.

And all of this coupled with a potential for growth which seems unlikely to drop below 20 per cent a year for the foreseeable future.

There are several reasons for the industry's refusal, so far, to develop out of its prolonged adolescence but a major factor is the way in which it comprises a heterogeneous group of companies and businesses rather than a single entity. It follows that to analyse prospects for the sector as a whole means looking closely at each business area.

The software industry has a peculiarity which renders analysis difficult, for it is really three separate markets. Many of the millions of lines of software written each year are developed by computer manufacturers for the express purpose of running and servicing their own machines. So that is one area closed to independent producers. Another no-go area is that catered for by corporations' own data processing departments.

The rest of the market is open to independent software houses, but even then they are constrained by the business strategies of the hardware vendors.

Last year, for example, Management Science America (MSA) a leading US-based software house, selling business software, announced a major commitment to converting its entire family of financial and manufacturing programs to run under International Business Machines' Systems Application Architecture (SAA), a set of rules and regulations devised by IBM to ensure that the computers in its three main product areas - mainframes, midrange and personal computers - have a similar 'look and feel' to users and to programmers developing software for them.

MSA is not the only software vendor to have made such a commitment - indeed, most independent software vendors will have to make the change to SAA compatibility if they wish to retain sales in the all-important IBM environment, but it seems to have moved faster than others in producing deliverable products.

There is often a substantial difference, in the software world, between what is promised and what is delivered. This year will be, for example, something of a year of truth for Lotus Development Corporation whose spreadsheet '1-2-3' habitually tops the applications software best sellers list, but which has uncharacteristically fallen rather more than a year behind schedule in delivering the latest – and most sophisticated – version of its flagship product. Lotus must now be hoping it can make its promised delivery in the second quarter of the year; further delays are unlikely to topple it from top spot but they will lead to a gradual deterioration in its market share against substantial competitors like Microsoft's 'Excel' and Ashton Tate's 'Framework'.

Europe has so far failed to make much impression in the 'packaged' software market dominated by Lotus and Microsoft, an exception being BIS of the UK with its 'Midas' banking software. The usual explanation given for this is the heterogeneous nature of the European market. Even Edgar Neufeld, group director for Market Solutions Development for IBM Europe has argued that after the advent of the single European market after 1992, there cannot be a single unique accounting system that will work in every country of Europe.

There are indications, however, that a company which plans well and early enough can develop quality international products. Tetra Business Systems, for example, a small UK software house, has announced an agreement with the West German electronics giant, Siemens/ through which Siemen's will market Tetra's business software world-wide.

Surveys suggest that businesses world-wide intend to spend more on software this year than last. Indeed, the level of software spending is becoming a more accurate indicator of computing activity than spending on hardware.

Japanese companies, in particular, seem concerned to narrow the gap in data processing between themselves and their western competitors by substantial investment in data processing.

Many computing services companies have changed dramatically over the past few years, moving to take advantage of the faster growing segments of the market place. To take only two examples, Andersen Consulting, the consultancy arm of the leading accountancy group, has taking to selling the software products it developed itself to service its clients.

Automatic Data Processing of the US, one of the most aggressive bureau services companies of the 1970s, has made a bold and seemingly successful move into information technology for the finance business. Its personal-computer based quote system is displacing Quotron terminals in a growing number of Merrill Lynch offices in the US while a number of brokers are evaluating the new system. In the slower growing bureau business it is rationalising furiously, planning to shrink its 43 regional centres into 10 mega-centres.

The question remains of whether an industry leader will emerge from the flurry of mergers and acquisitions now changing the shape of the industry. There are indications that the answer may come from a somewhat unexpected direction. The large computer leasing groups, Comdisco of the US, Atlantic of the UK or Meridian, headquartered in the UK, all have ambitions to be number one in computing services and the resources to put their plans to the test.

But will IBM let them or any one of them succeed?

The trial of strength that will ensue should guarantee that 1989 will be a vintage year for what is still very much an *industrie nouveau*.

SEMICONDUCTORS

Signs of a slow-down

Louise Kehoe reviews the semiconductor industry's year and looks ahead

THE LAST year was a boom year for manufacturers of semiconductor chips, with world-wide market growth of over 30 per cent boosting sales to over $50bn. In this highly cyclical industry, however, the good times seldom last for long and already there are some signs of a slow-down in the year ahead.

Projecting the outlook for the semiconductor industry in 1989 is, however, a task fraught with problems. Never before in the 25 year history of the semiconductor industry have so many uncertainties fogged the future.

External economic factors could have a major impact upon the industry's performance. With Japanese manufacturers now controlling over 50 per cent of the world semiconductor market, the value of the yen relative to other currencies, for example, significantly affects US and European measures of market growth.

With the trade and economic policies of the new US administration still to emerge, semiconductor manufacturers, like many industrialists, are maintaining a cautious approach to business projections.

Trade issues, including the ongoing battle over semiconductor trade between the US and Japan, which has led to government intervention in the memory chip market, could again loom large in 1989 as the US continues to push for greater access to the Japanese semiconductor market.

According to analysts at Dataquest, the US-based market research firm, US semiconductor producers' sales accounted for 10 per cent of the total Japanese semiconductor market in 1988, the highest portion of market share recorded since 1984. US industry leaders and government trade officials remain concerned, however, that the increase represents only "residual" sales, won in a period of high demand, that may disappear if demand softens. Any significant drop in the foreign share of the Japanese chip market in 1989 would spark increased trade tension and might lead to further trade sanctions.

Japanese semiconductor producers are also increasingly concerned about potential trade problems in Europe, where demands for higher "local content" in electronic equipment by the Economic Community may significantly affect sales over the next few years.

Within the industry, several major issues are also creating uncertainty. Shortages of key products such as memory chips and microprocessors, leading to higher prices, were a major contributing factor to the 1988 boom. According to analysts at In-Stat, an Arizona market research group, growth in unit sales, or real demand, was up only 17.5 per cent last year, with the remainder of the dollar growth directly attributable to shortage-related price increases.

A critical question facing the industry today is how long these shortages will last. While some market analysts are already reporting an easing of the shortages, major Japanese producers say they expect memory chips to be in short supply throughout 1989.

Toshiba, the largest producer of Dynamic Random Access Memory (DRAM) chips, believes that increased demand from new markets such as High Definition Television will stretch the DRAM shortage out for at least another year.

Others maintain, however, that production expansion at several Japanese, Korean and US memory chip manufacturers, could soon begin to ease the shortage of DRAMs, which has plagued the electronics and computer industries for the past 18 months.

The value of memory chip sales rose by an unprecedented 91 per cent in 1988, according to Dataquest estimates, so any change in DRAM supplies could have a radical impact upon semiconductor market growth as a whole.

Shortages of key products such as memory chips were a major contributing factor to the 1988 boom

Increased manufacturing capacity at Intel, in the US, should also prevent a recurrence of the shortage of high performance microprocessors that has affected personal computer manufacturers in recent months, easing prices

It is, however, as always, the pattern of demand that will set the trend for world-wide semiconductor sales in 1989. The consensus among industry leaders and market analysts is that moderating growth rates in major end-user markets, combined with lower memory chip prices will make 1989 a "no growth" year in the world semiconductor market.

In the US and Asian markets (excluding Japan) there have been some signs of a slow-down during the fourth quarter of 1988 with chip makers reporting softening demand from some personal computer manufacturers as well as lower orders from semiconductor distributors. The US market is expected to shrink by 1 to 5 per cent this year.

In Japan, where over 50 per cent of semiconductors sold go into consumer electronics products, increased competition from lower-cost producers of televisions, video tape recorders and other popular products elsewhere in Asia may temper semiconductor market growth in the year ahead, according to industry analysts. Growth will be reduced to about 2 or 3 per cent in 1989, according to market researchers.

The European semiconductor market, which has been driven by the demands of telecommunication equipment manufacturers as well as the military and computer sectors, is also slowing down, with little or no growth expected this year.

Emerging semiconductor producing nations such as Korea and Taiwan, will also see sales growth slow to a trickle in 1989 as prices for "commodity" chips fall, industry projections suggest.

Despite such projections, major chip makers around the world remain cautiously optimistic about the outlook for 1989. While there may be a slow year ahead, it now seems unlikely that the industry is heading into a major recession like that of the mid-1980s.

DOMESTIC APPLIANCES

Diversity of demand

The globalisation of domestic appliance manufacturing is hitting some immovable obstacles, writes Christopher Parkes, as well as economic volatility and saturation

HOWEVER irresistible the forces of globalisation may seem in the kitchen appliances manufacturing industry, there is no evidence yet that they have found a way round or through the immovable obstacles of diversity of taste and demand which hamper the internationalisation of markets.

Difficulties are compounded by saturation, the lack of innovation to prompt purchase, and economic volatility which usually entails appliance sales taking a knock with every downward twitch in the barometers of prosperity.

In the US, for example, factory shipments of white goods fell last year. Following a long-established pattern in which a fall in new housing starts presages a drop in sales, sales of all domestic appliances declined by 2 per cent to 42.6m units in the first eight months of 1988. The figures would have been much worse had it not been for weather factors which gave air conditioners an 11 per cent boost.

Shipments of cooking appliances, the biggest single sector in the US market, fell by almost 12 per cent. A 15 per cent drop in sales of microwave ovens showed quite clearly both that the market is saturated and that efforts to innovate and enliven the business with the introduction of combination conventional/microwave appliances are flagging.

Suppliers to the British market, the most important export outlet for continental European makers, are facing a tricky time after two excellent years during which sales rose strongly. As interest and home loan rate increases take their toll on discretionary spending power, sales of white goods are traditionally among the first to suffer. There are already signs in the heavily concentrated retail trade – where the top 20 chains control 50 per cent of sales – of price cuts eating away at margins.

In the more stable environment of West Germany, prospects are that growth running at around 8 per cent by value for the past two years will continue, although the pace may slacken.

Japanese makers, struggling with the strong yen and high labour costs, have already detected a trickle of competitively priced imports into their home markets. According to Mr Akira Koudate, a director of the joint Italian-Japanese consultancy, Jmac-Considi, retailers are bringing in European and US refrigerators, and Matsushita is planning to import western-style washing machines.

However, the principal response to cost pressures has been the export of manufacturing capacity. Toshiba, for example, has invested Y5,000bn (£22bn) in a Thai factory to supply Japan and regional export markets; Matsushita is manufacturing washing machine cases in Taiwan.

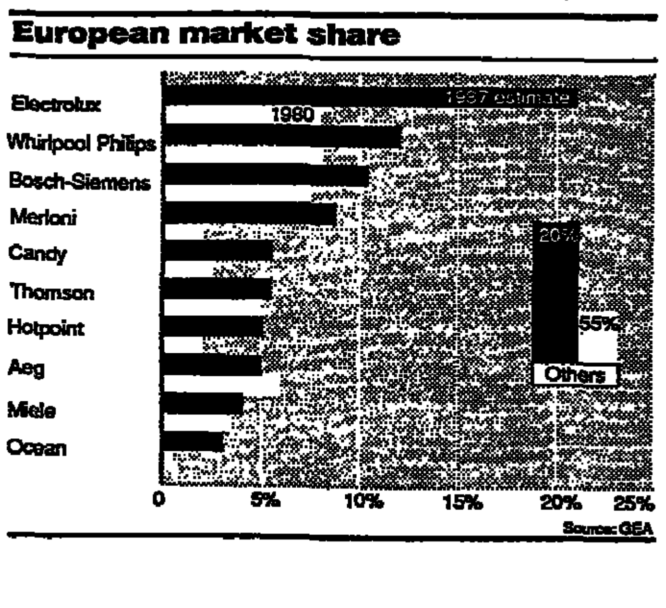
These companies and others among the six which control 95 per cent of Japan's appliance business have also reached further afield. Hitachi has a 100-strong team in New York specialising in international components procurement and Matsushita is planning a similar project in West Germany, Mr Koudate told a seminar in London recently.

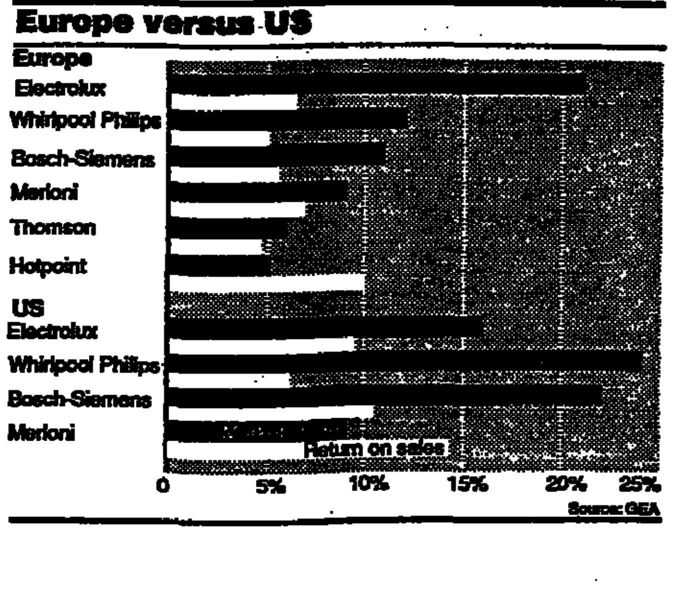
However, as the seminar, organised by Indesit and Ariston maker Merloni Elettrodomestici, was told, the industry leaders in Europe have been moving even more briskly to squeeze out maximum efficiencies from their international networks. Sweden's Electrolux, for example, which was toppled from its position as the world's biggest appliance maker last year by the link between Whirlpool of the US and the Dutch multinational, Philips, has led a quiet revolution in components, buying parts makers across the world.

It is now leader among an élite of four companies which control 70 per cent of European production of compressors – the costliest component in cooling appliances. Similar moves are under way in the electric motor industry and among specialist electronic controls makers.

Although less dramatic than the continuing round of mega-mergers in branded appliance makers proper, this further concentration of manufacturing power and consequent cost efficiencies could be of equal significance for white goods companies which have so far escaped the takeover net.

However, there are those who argue that scale counts for relatively little in an international market place with such diverse tastes as Europe, and that the profits advantage lies with nationally-based specialists which concentrate on their home markets. A recent study from the London Business School pointed, for example, to the superior performance of Britain's Hotpoint, the GEC subsidiary, arguing that the complexities involved in manufacturing many varieties of machine for a dozen countries and more overwhelmed the potential for economies of scale. Smaller, more flexible factories were ultimately more efficient.





Hotpoint's estimated 10 per cent return on sales from a mere 5 per cent share of the European market in 1987 compares favourably with Electrolux's 6.4 per cent from a market share approaching 25 per cent. However, Thomson in France, another national manufacturer – operating in a protected environment – managed a return of only 4.7 per cent.

The results of Electrolux's international adventures have yet to show up clearly. The Philips/Whirlpool deal is only just under way. The assimilation and management of diverse companies around the world is necessarily a protracted task, not helped by the peculiar difficulties facing white goods makers. But the fact that the Swedish group managed to maintain an even keel last year, helped by buoyancy in Europe to overcome the US slump and some local difficulties with US manufacturing operations, suggests that internationalisation has its merits.

Recent events, including the proposed merger of the European appliance interests of Britain's GEC and General Electric of the US, last year's Whirlpool/Philips link, and the purchase of Hoover by Maytag of the US, suggest that the world's majors agree. Mr Mario Consiglio, a partner in the Italian Gea consultancy, told the Merloni meeting that Europe's national and niche market specialists like Miele of West Germany, were strong and defending themselves well.

Even so, he suggested rationalisation would continue:

- The national leaders might link through joint ventures.
- They might enter international markets by taking one another over, although Electrolux and Philips are likely to run into national or European Community monopolies controls.
- General Electric of the US might join the bidding at last.

Events have proved him partly right. However, as Prof Joseph Bower of the Harvard Business School told the meeting, GE should first be sure of the wisdom of such a move. As well as confronting the diversity of tastes it would meet in Europe, it would have to learn to deal with a highly-fragmented distribution network which might be just as great an obstacle to pan-European success.

Having studied recent international mergers in consumer products businesses, he could see the rationale for Thomson's purchase of the RCA television business as a means to block the Japanese. But had yet to be convinced of the efficiencies from Electrolux's consolidations in Europe. Was Whirlpool merely apeing Electrolux when it joined Philips? he asked. The same question could be applied to the GE/GEC link.

"Are we talking globalisation of markets or just a game of global chess?"

How long will the good times last?

Surge in demand sees record profits

Peter Marsh on one of the world's biggest manufacturing businesses

MANY of the world's big chemicals companies are breathing a sigh of relief that events over the past year or so have gone so well for them. Equally, they are crossing their fingers and hoping that 1989 and 1990 will turn out the same.

Across much of the world the chemicals sector in the early 1980s was looked upon as a business in decline. It was beset by problems of overcapacity and insufficient demand, a situation not helped by the successive rises in the price of oil that is the main feedstock for many basic chemicals.

Since the middle of the decade, however, prospects for the industry – which with annual sales of about $1,000bn is one of the world's biggest manufacturing businesses – have gradually improved. This was partly due to the industry cutting back, savagely in some cases, in capacity and in employment. There was also stronger demand in businesses such as cars, consumer goods and construction that are among the main customers for the sector.

Over the past year, the big chemicals groups in the US, Japan and Europe have started to benefit from these changes, showing record profits as a result of surging demand and high prices in many product lines. The growth has come equally from high volume, relatively low-price plastics such as polyethylene and polystyrene and also from newer, higher-value chemical products like pharmaceuticals, engineering plastics and agricultural compounds.

The big question now for the industry – which is dominated by a few dozen giant multinationals but includes countless thousands small producers and fabricators in many different specialised niches – is how long the good times are likely to last.

Mr Enrique Falla, chief financial officer of Dow Chemical, the second biggest US chemicals company, believes the bright prospects for the industry will continue for at least another year – though after that the outlook becomes more uncertain due to the hazards of forecasting demand. Dow, with sales in 1988 of about $16bn, is the world's sixth biggest chemicals group, behind BASF, Bayer and Hoechst of West Germany, Britain's ICI and the US' Du Pont. In seventh position is Ciba-Geigy of Switzerland.

Underlying the discussion about the sector's prospects over the next few years are the structural changes affecting the industry. There has been a move within individual companies both towards greater specialisation of products and also to targeting more of the industry's output to areas like pharmaceuticals and agrochemicals which are only slightly affected by perturbations in the world's industrial cycle.

On top of this has been a greater accent among the world's top chemicals companies on new products which are based on a significant degree of scientific research and which can be sold for higher prices than older-established products such as basic plastics, fibres, paints and dyes.

Examples of these changes have been the efforts by many of the big companies to move into high-performance plastics for car and aerospace applications. Fibres makers, too, are moving more of their efforts to designing novel, high-strength materials for engineering applications – in contrast to the traditional customer base for the products in the clothing area.

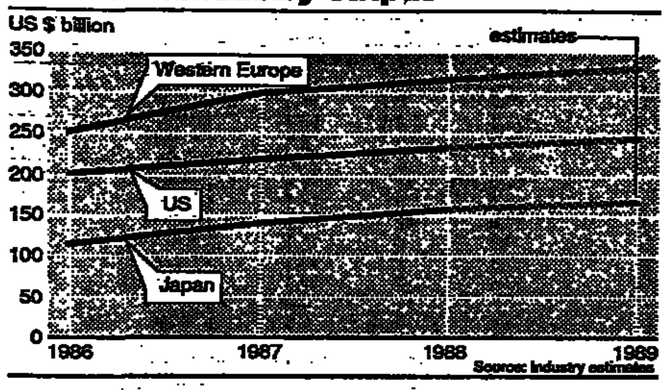
According to Mr John Garcia, a chemicals-industry analyst at Wertheim Schroder, a New York investment bank, many of the world's big chemicals companies have a common aim to build up scientific expertise in key areas such as biotechnology and materials engineering. These core technologies can then be "leveraged" into a variety of product areas including drugs and crop-protection materials as well as many variants of the basic industrial chemicals sold today.

Driving these moves is that in most developed nations about half the output from chemicals companies goes directly to other manufacturing industries, which are themselves directly linked to the peaks and falls in the world's economy.

Anything that lessens the sector's dependence on this cycle – and so smooths out the fluctuations in demand from which the chemicals business has suffered over the past 30 years – will, from the industry's viewpoint, be a substantial gain.

Another factor is the tougher competition in many areas of chemicals – textile fibres and petrochemical feedstocks such as ethylene are good examples – from newly industrialising nations and the oil-rich countries of the Middle East. Faced with the threat of these countries gaining solid positions in the traditional areas of basic chemicals, companies from the richer countries have been forced to go up market in their product strategies if they want to be sure of a reasonably prosperous future.

Chemical industry output



Source: Industry estimates

TOP CHEMICAL COMPANIES (1987 sales)

Sales	$bn	±%
BASF (W Germany)	25.6	-0.6
Bayer (W Germany)	23.7	-3.0
Hoechst (W Germany)	23.6	+11.2
ICI (UK)	21.0	+9.7
Du Pont (US)	17.6	+11.2
Dow Chemical (US)	13.4	+20.4
Ciba-Geigy (Switz)	12.4	-1.2
Montedison (Italy)	11.9	+7.5
Shell (Anglo/Dutch)	11.7	+6.4
Rhône-Poulenc (Fr)	10.6	+8.8
Akzo (Holland)	8.8	-0.5
Mitsubishi Kasei (Jap)	8.6	-0.1
Elf Aquitaine (Fr)	8.0	+9.1
Monsanto (US)	7.6	+11.1
Exxon (US)	7.2	+18.1
Sandoz (Switz)	7.1	+7.4
Union Carbide (US)	6.9	+9.0
Solvay (Belg)	6.8	+3.4
Hoffmann-La Roche (Switz)	6.1	-1.5
EniChem (Italy)	5.3	+3.3
Norsk Hydro (Norway)	5.3	+3.0
DSM (Holland)	5.1	-0.2
Merck & Co (US)	5.1	+22.6
Pfizer (US)	4.9	+9.9
BP (UK)	4.6	+13.5
Showa Denko (Jap)	4.5	+11.1
Grace, WR (US)	4.5	+21.2
Atochem (France)	4.4	+22.8
L'Air Liquide (France)	4.4	+11.9
Sumitomo (Jap)	4.3	+0.2
Cyanamid (US)	4.2	+9.2
Asahi Chemical (Jap)	3.8	+7.6
BOC (UK)	3.8	-0.6
CdF Chimie (France)	3.8	-1.7
Lilly, Eli	3.6	+9.7
Mitsui Toatsu (Jap)	3.5	+4.4
Hüls (W. Germany)	3.5	+0.6
Amoco (US)	3.5	+19.3
Schering (US)	3.0	+0.6
Occidental (US)	3.0	+43.2
Mobil (US)	2.9	+22.4
Allied Signal (US)	2.8	+11.9
PPG (US)	2.8	+6.4
Quantum (US)	2.6	+46.4
Unilever (Anglo-Dutch)	2.5	+1.1
Mitsubishi Petrochem (Jap)	2.4	+5.4
Eastman Kodak (US)	2.4	+10.0
Chevron (US)	2.4	+18.6
Rohm & Haas (US)	2.2	+6.5
Average	6.6	

Source: Chemical Insight

US motor industry

Continued from page 2

companies are producing goods in the US today, about three times the number in January 1984. And many industry analysts have estimated that the number could grow to 300 by 1990.

Mr Polling suggests that "planned additions to capacity, particularly Japanese plants in North America and Europe as well as new Korean plants, are expected to result in excess world-wide automotive capacity of some 8m units by 1990 – over 20 per cent more cars and trucks than consumers will demand.

"Overcapacity of this magnitude means we will be facing a brutally competitive environment world-wide," says Mr Polling.

"It means there will be many losers today that will not be able to survive to the end of the century – if that long – in their present sizes and structures. And the impact will be felt most severely in North America where nearly 6m units of that excess will be aimed."

This year marks a new phase in the expansion of the Japanese auto industry world-wide, but particularly in North America, as Toyota and Nissan storm the last bastion left unconquered during the last two decades of their unprecedented invasion of world car markets – the rarified market of high performance luxury cars.

Hitherto, the exclusive club of European luxury car makers led by the West German trio of Daimler-Benz, BMW and Porsche, and Jaguar of the UK, have had the market to themselves, confident that the prestige and heritage of their marques could hold them above the fray.

Now even that seemingly impregnable part of the old order is changing. For Mr Tom Mignanelli, executive vice president of Nissan Motor Corporation in the US, and a master of motor industry hype, the significance of this month's launch of Nissan's and Toyota's new luxury car lines is simple: "Every few decades a major business development occurs that sets a new direction for the industry. It marks a departure from business as usual." In this particular case it is simply "the end of the luxury car market as previously known".

Each company has spent several billion dollars in the last five years on producing new flagship cars – for Nissan the Infiniti Q45 and for Toyota the Lexus LS 400 – that are supposed to show all the best the Japanese can now achieve in car technology, performance and design.

Mr Jim Perkins, manager of Toyota's Lexus division, says that currency movements and the Europeans' pricing policy mean that there is now "an opportunity that didn't exist even a year ago in the mid-priced luxury market". The Japanese push into the luxury market has been encouraged by much more fundamental factors, however, most importantly the growth they expect to come in the overall luxury car market as the population bulge moves upwards and the baby boomers move into their prime earning years.

"The number of households with annual incomes over $50,000 will increase from 10 to 18 million over the next five years," he says. When they were young many of the baby boomers bought the smaller Japanese cars as first time buyers. Now Nissan, Toyota and Honda are determined to have a slice of their business as they reach affluent middle age.

Kevin Done

PHARMACEUTICALS

Some favourable trends, though dissatisfaction with public policy

The pharmaceuticals sector presents many paradoxes, writes Peter Marsh

FEW industries present so many paradoxical faces as the global pharmaceutical business. The sector, with world sales of about $120bn annually, is dominated by 20 or so multinational companies which are admired by many industrial onlookers for their ability to turn new scientific ideas into money spinning products.

On a public front, however, the business attracts very little in the way of esteem. The sector hardly ever wins much praise from the average consumer, even when a medicine is helping to improve health – in which case the person will probably thank the doctor rather than the drug's maker.

Relations between the industry and governments, meanwhile, are coloured by the fact that in most developed countries the biggest customers for drugs are publicly-owned health agencies anxious to keep down costs. As a result, governments often view the sector in adversarial terms.

While defence is another industry which is highly dependent on government for sales, in most industrialised countries the drugs business has had far less success than the military in cajoling politicians to take supportive measures.

The drugs sector is unusual in the large sums it spends on research and development – often in the region of 10-15 per cent of sales. That ratio applies to all the world's top drugs companies of which the US' Merck, with sales in 1987 of $4.2bn, is by some distance the biggest. Next in the league table are Hoechst of West Germany, Britain's Glaxo, Sweden's Ciba-Geigy, Bayer of West Germany and the US' American Home Products.

Much of this R&D cash is taken up in lengthy trials, which frequently last a decade, during which new drugs are tested on selected patients before they are released for general distribution under a doctor's prescription.

A frequent complaint in the healthcare business is the increasing weight of registration procedures insisted on by governments before a new drug can enter the market. These procedures, intended to ensure that the medicine is both safe and works as advertised, can add several years to the development times for new pharmaceuticals and lead to still greater R&D expenditure.

The subject of the high R&D costs can, however, be interpreted in several ways. While many in the drugs sector say the high research costs are a large and unfair burden on the industry, other onlookers believe that at least some of the R&D cash ought to be more rigorously categorised as marketing expenditure.

'It is impossible to escape the thought that much of the research conducted by drugs companies may be ill-conceived and therefore wasteful'

According to this view, much of the cash that a company spends on a drug during the trials procedure is essentially promoting the product among the doctors whom the company hopes will prescribe the product in large quantities once it reaches the market.

Another school of thought is that not all the R&D costs associated with many drugs companies may be strictly necessary. The expenditures have been rising rapidly in recent years; to some degree this is because of tougher government regulations on registration but it is impossible to escape the thought that much of the research conducted by drugs companies may be ill-conceived and therefore wasteful. That could, at least to some degree, explain why the R&D costs for drugs companies are substantially higher than in many other equally innovative sectors – in electronics for example.

Certainly many pharmaceutical companies are investigating new ways to speed up their development programmes to reduce costs, either by techniques to tailor new drugs to combat specific physical conditions (new scientific methods of protein engineering and genetic manipulation may help here); or by improved computerised procedures to keep track of the masses of data generated during drugs trials.

One undoubted big opportunity for the industry over the next few years arises from the demographic changes that are increasing the proportions of elderly people in the populations of many countries. That creates a huge and increasing market for medications to combat many of the diseases that afflict people later in life – cancer and heart ailments for example. At the same time, new scientific advances in understanding how the body works may make it easier to come up with novel, and possibly highly profitable, treatments for illnesses such as mental disorders where current therapeutic methods leave a lot to be desired and which also afflict many elderly people.

In opposition to such generally favourable trends are, however, other factors which – certainly in the opinion of many in the drugs business – are acting against the interests of the industry. Drug companies often also complain about a host of problems that stem from public policy decisions – including the issue of the tougher registration procedures – that they say are hindering the progress of the industry.

This element of dissatisfaction was underlined in a report* last year by Merck, the world's number one drugs company. Clearly adopting the approach that the time to change things is when you are ahead, Merck took 71 pages to list a number of issues – ranging from lack of patent protection for new drugs to insufficient government cash going into science education – that the company believes is causing difficulties both for itself and for other US companies in the healthcare field.

The company's basic message, which observers of the drugs industry find it difficult to argue with, is that government policy actions over the next few years will have a big impact on the degree to which the business prospers.

* *Health Care in Innovation: The Case for A Favourable Public Policy, available from Public Affairs Office, Merck, PO Box 2000, Rahway, New Jersey 07065, US.*

Top pharmaceutical companies worldwide[1]

		Sales ($bn)[2]
1	Merck & Co (US)	4.2
2	Hoechst (W Germ)	3.5
3	Glaxo (UK)	3.4
4	Ciba-Geigy (Sw)	3.2
5	Bayer (US)	3.0
6	Am Home Products (US)	2.9
7	Takeda (Jap)	2.7
8	Sandoz (Sw)	2.7
9	Eli Lilly (US)	2.4
10	Abbott (US)	2.3
11	Pfizer (US)	2.3
12	Warner-Lambert (US)	2.3
13	Bristol-Myers (US)	2.2
14	SmithKline (US)	2.2
15	Roche (Sw)	2.1

1 Figures are for the year ended December 1987, except Glaxo (June 1988) and Takeda (March 1988)
2 $ conversions are based on average annual exchange rates for 1987
Source: Scrip World Pharmaceutical News

The first half of 1989, at least, looks healthy

Consumption is a barometer

Nick Garnett, here and right, reviews the bumper year of 1988 and looks at the year ahead for the steel industry

AFTER A year of booming consumption, the world's steel makers are now wondering whether 1988 marked the peak of the business cycle.

Predicting future trends in steel demand is so problematic that just about everyone trying it has made howlers of epic proportions.

In the early 1970s, the general consensus was that steel was on a long upward curve that would take yearly demand steadily up to about 1.7bn tonnes by the end of the century. They had not counted on the world recession of the early 1980s.

Apparent consumption of crude steel peaked at 753,000 tonnes in 1979 before sliding to 655,000 in 1982, climbing back up to 741,000 in 1987.

Last year the steel industry enjoyed exceptionally strong demand as a whole raft of industries, from vehicle building to mechanical engineering, experienced powerful surges in ordering. This was compounded by soaring domestic demand in Japan.

'Just about everyone who tries to predict future trends in steel demand makes howlers of epic proportions'

According to estimates prepared in September by the International Iron and Steel Institute (IISI) consumption among the 12 European Community Countries looked like increasing for the full year of 1988 by about 7 per cent to 111m tonnes.

The US looked to be on course for a rise of 4 per cent to 110m tonnes and Japan by 13 per cent to 87m tonnes. The 31 countries classified by the IISI as industrialised appeared to be on course for an overall increase in steel consumption in 1988 of almost 8 per cent to 361m tonnes.

The Japanese figure also reflected an especially powerful surge in the usage of steel in Asia as a whole. So-called developing countries in Asia experienced an increase in steel consumption last year of more than 10 per cent, from 57m to 63m tonnes. Most of this increase in demand was accounted for by South Korea and Taiwan.

Steel consumption is a barometer of industrial demand and general economic health. As a result it is easy to see why demand in the past has oscillated the way it has done but it is very difficult to predict future trends. That is why the spread of projections is very broad.

Most analysts and observers believe the next few years could be relatively static, with forecasts varying from a gentle downturn to a marginal rise, total demand hovering around 800m tonnes. The IISI projection is for an overall static market but with demand in industrialised countries beginning to fall from this year. The institute's forecast is for consumption of the 31 industrialised countries to slip from the 361m tonnes in 1988 to 323m by 1995.

This would partly be offset by continuing healthy demand in industrialising countries. The world steel dynamics survey by New York-based analysts PaineWebber in the middle of last year gave odds of 75 per cent that steel production of developing nations would rise at an average yearly rate of 5 per cent to the mid-1990s (partly reflecting these countries' domestic demand).

At the other end of the scale Nikko Securities in Tokyo has just come out with an astonishingly bullish report on the world steel industry. It attempts to brush aside those analysts who now have cold feet about steel consumption.

The Nikko report predicts that demand will increase by between 2.6 per cent and 3.8 per cent annually. This would give a world steel production of between 1.2bn and 1.3bn tonnes by the year 2000.

World steel production capacity is about 900m tonnes and Nikko says the shortfall would be mainly made up by developing countries introducing new capacity to raise their levels of self-sufficiency.

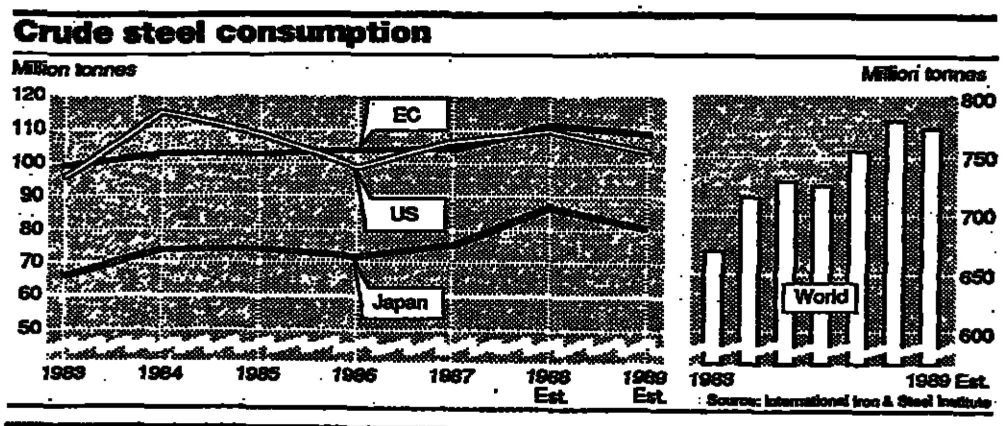
The report is based on two main assumptions: that steel consumption will increase faster than the world GNP because of increasing formation of fixed capital and rapidly rising sales of consumer durables in developing countries, and that world real GNP growth will be 2.5 per cent per year.

Many analysts believe this will prove to be wildly optimistic. A mark, though, of how awkward forecasting steel demand can be is the PaineWebber report which is packed with what are termed "wild card" possibilities.

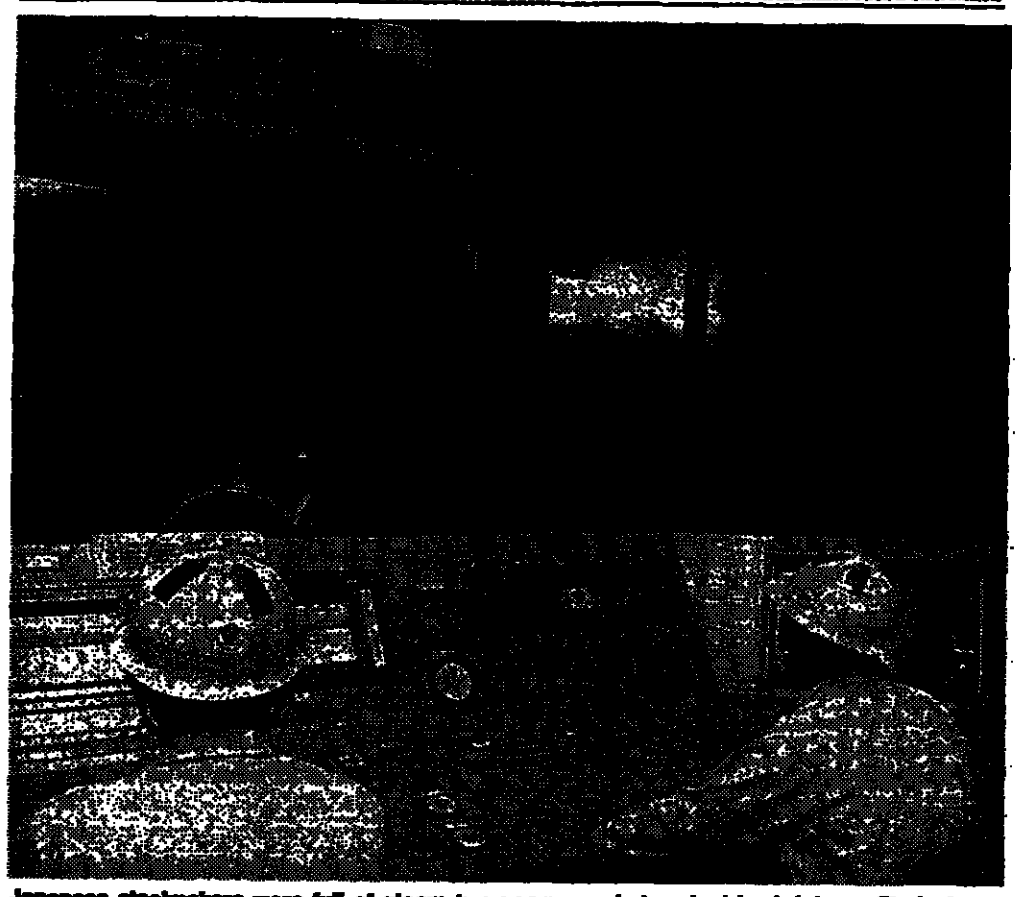
For example it gives odds of 50 per cent that steel production in the developed western world will expand by only one per cent per year through to the mid 1990s. It gives 20 per cent odds on production from these countries actually falling 20 per cent by the early 1990s as a result of weak demand, depressed prices and competition from developing countries.

The first half of 1989 looks quite healthy for steel consumption. The likelihood, though, is that these conditions will not last and that the growth of 1988 will have represented a peak in the consumption cycle. Any short term fall in western world demand is unlikely to be severe, however, unless the US economy falters badly and hastens a general recession.

Crude steel consumption



Source: International Iron & Steel Institute



Japanese steelmakers were full of gloom two years ago but rushed back into profits last year

STEEL PRODUCTION

Partnerships continue

THE WORLD steel industry had what might be called a bumper year in 1988. Production was up around 9 per cent. Prices in western world markets were strong. US and Japanese steel makers and many of the European integrated companies made profits, some of them very fat indeed.

Along with this, some of the trends emerging slowly in the early 1980s gathered pace. More joint deals between steelmakers took place, especially between North American and Japanese producers. Among mature steelmakers, the drive towards higher value added steels accelerated.

So, how many of these developments will continue through this year and beyond? The general feeling in the industry is that production should be very healthy for at least the first half of this year but many companies expect the second half to be poorer.

World output, therefore, is unlikely to show last year's growth and in some countries, the US for example, it could actually fall.

Most of the trends in technology and partnerships between steelmakers will continue and develop. Japanese companies, which want more inroads into the North American market, and US steelmakers, which want access to Japanese technology, are already lining up a series of new joint deals in the US for 1989.

The move into specialty-coated steel by steelmakers supplying such major users as the automotive industry will not only accelerate but will continue to tie steel producers more closely to big users.

Total worldwide output in 1987 was 736m tonnes and for last year will probably turn out to be close to 800m. This comfortably passes the 1979 peak of 747m.

In the US – where the eight biggest producers took out a quarter of capacity in the 1980s, representing 40m short tons – crude steel production rose 19 per cent last year to 98m tons, according to AUS, a US industry analysis company.

Many plants in the US were operating full out. Spot prices for steel rose 17 per cent last year, helping to jack up profits of US steel makers to an estimated $2.5bn – an all-time record.

However, this might not last. AUS predicts a fall in the US steel market from 84m tons to 80m tons. Moreover, there is likely to be a continuing shift away from the major steelmakers (known collectively as Big Steel) towards mini-mills. These already account for 20 per cent of US steel production.

Japanese steel makers were full of gloom two years ago but rushed back into profits last year. On the back of a big jump in domestic demand, output in the first 11 months of last year was 97m tonnes compared with 98.5m in the whole of 1987. In the light of this, it looks as if Japanese companies will at least delay plans to remove further capacity.

For the 12 countries in the European Community, last year's crude steel production of 127m tonnes in 1987 is expected to have risen to 137m tonnes for last year, once all production figures for December are collated, according to the International Iron and Steel Institute.

Demand looks buoyant for at least the *first quarter* of this year in western Europe. There is a fair amount of restructuring still to do in Europe, however, with attention focused on the *Italian industry, which* structurally is not in the best of health, and that of West Germany.

Joint deals between steel companies in Europe have been tough to organise. But the revival of British Steel raises the issue of whether Europe's lowest cost major producer will break out of domestic UK production by buying a production facility in Continental Europe, possibly West Germany.

Within this framework, continuing shifts in the relative strength of producer regions and individual countries took place last year and these will be a feature, too, of 1989.

Despite strong growth in steel production in western Europe, the US and Japan, a further shift towards developing nations took place in 1988. For example, output from South Korea was up 15 per cent in the first 11 months of last year compared to the same period in 1987, according to Institute figures. Production in Taiwan from the relatively low base of 5m tonnes in 1987 was on course by mid year to leap for the full year by a half to 7.6m tonnes.

This is part of a continuing trend. Between 1979 and 1987, developing countries increased their share of world production from 7.3 per cent to 11.8 per cent. During this period, North America's share fell from 18.7 per cent to 13 per cent, western Europe from 23.3 per cent to 20.5 per cent; and Japan from 15 per cent to 13.9 per cent.

Within western Europe, some of the shifts under way through most of the 1980s were partially reversed again last year.

For example, production in Italy fell only marginally between 1979 and 1986, from 24.3m to 23m tonnes, was static in 1987 and rose last year by just 3.5 per cent, measured on the first 11 months' performance.

UK production slumped dramatically from 21.5m tonnes to 14.7m tonnes over the same period to 1986, but jumped to 17.4m tonnes in 1987 and was up almost 11 per cent last year.

Largest steel-producing companies
millions metric tons crude steel output

1987		1986		
1	26.0	1	26.3	Nippon Steel
2	16.7	(1)*	16.9	USINOR-SACILOR
3	13.6	3	11.4	British Steel
4	12.5	2	13.1	FINSIDER
5	11.3	10	9.5	Pohang
6	11.3	4	11.2	Nippon Kokan
7	10.5	11	9.5	Bethlehem
8	10.4	8	10.1	LTV Steel
9	10.4	12	8.8	USX
10	10.2	5	11.1	Thyssen
11	10.1	7	10.1	Kawasaki
12	10.1	6	10.1	Sumitomo
13	7.3	14	6.9	SAIL
14	6.5	15	6.6	ISCOR
15	5.9	17	5.9	Kobe Steel
16	5.8	16	6.4	BHP
17	5.4	20	5.0	Armco
18	5.0	18	5.2	Inland Steel
19	4.8	19	5.1	Hoogovens
20	4.7	21	4.5	National
21	4.5	22	4.4	Stelco
22	4.3	27	3.9	Cockerill Sambre
23	4.2	25	4.1	Voest-Alpine
24	4.1	32	3.6	CSN
25	3.9	26	3.7	Hoesch
26	3.8	24	4.1	Krupp Stahl
27	3.7	28	3.7	China Steel
28	3.7	26	3.9	ENSIDESA
29	3.7	29	3.7	Dofasco
30	3.6	30	3.8	Mannesmann
31	3.5	34	3.4	CST – cia Siderurgica de Tubarao
32	3.4	33	3.5	Peine-Salzgitter
33	3.4	25	4.1	Klöckner
34	3.4	35	3.2	Nisshin Steel
35	3.3	39	3.7	ARBED
36	3.3	36	3.0	CVG Siderurgica del Orinoco
37	3.2	39	3.0	Tokyo Steel
38	3.0	40	2.9	AHMSA
39	2.9	37	3.1	USIMINAS
40	2.9	38	3.1	SIDMAR
41	2.8	41	2.9	Wierton Steel
42	2.6	42	2.7	Svenskt Stal
43	2.4	43	2.4	Rouge Steel
44	2.3	49	2.2	Algoma
45	2.3	47	2.2	Saarstahl Volklingen
46	2.3	46	2.2	Tata
47	2.3	43	2.8	COSIPA
48	2.2	45	2.4	Co-Steel Inc.
49	2.2	45	2.6	Wheeling-Pittsburgh
50	2.0	50	1.9	United Engineering Steels

*USINOR and SACILOR were separate companies in 1986

Source: International Iron and Steel Institute

Peter Montagnon charts changing relations with the Soviet Union

Whirlwind leaves confusion

ON THE surface, it looks as though a sea change has taken place in the Soviet Union's economic relations with the rest of the world, but for all the fanfare surrounding perestroika the actual process of implementing change is proving slow and difficult.

For much of last year reports of economic liberalisation were flowing thick and fast: the Soviet Union said it wanted to join the General Agreement on Tariffs and Trade, eventually to make its rouble convertible, to decentralise its foreign trade, to establish an export credit insurance agency.

Yet for corporate executives involved in the practical business of trading with Moscow the abiding impression left by last year's whirlwind is actually one of confusion. While change is certainly in the wind, business conditions have, if anything, become harder and, all appearances to the contrary, there is little concrete evidence that the Soviet Union is actually poised to begin a buying spree in the West.

According to the United Nations Economic Commission for Europe, Soviet imports from the West rose by 10 per cent in volume terms during the first half of last year, but a large part of the increase was accounted for by grain purchases from the US and the gain was not enough to offset the decline in imports during the preceding two years.

There are two main factors holding back the process of integration of the Soviet economy with that of the Western world. The first is institutional: the constantly changing reform process has made for administrative uncertainty which tends to slow down practical decision-making. The second is financial: though its credit rating remains impeccable, Soviet planners remain constrained by lack of hard currency which has been exacerbated by the weak oil price.

Businessmen seeking to trade with the Soviet Union report that the decentralisation which has led to the creation of a *plethora of institutions* entitled to trade in their own right has made it harder to reach the real *decision-makers* and added to worries about finance. It is no longer clear that the state will stand behind all Soviet borrowers and a new element of commercial risk has been *introduced into* Soviet project finance.

Economists who follow the Soviet Union believe that it would be out of character for Moscow to risk a large increase in its indebtedness, especially at a time when its oil export revenues are weak

This has been compounded by the fresh emphasis on joint ventures as a means of financing trade.

Moscow has been actively promoting such joint ventures for the last couple of years and most trading partners are encouraged to *form* them as a means of cementing their relationships and completing deals. But this involves Western *partners in putting up risk* capital of their own. Their reluctance to do so means that though the number of ventures signed has grown quite rapidly, most are in the service sector and involve only small amounts of money.

Last month the Soviet authorities announced that the rules on joint ventures would be changed to permit Western partners to take majority control and assume management responsibility. What is less clear, however, is whether this will bring new freedom to recruit local labour and set their own wage rates, a factor which is still likely to slow the formation of fresh projects.

For the Soviet authorities *joint ventures offer an apparently* easy way of acquiring Western technology, know-how and management skills on the cheap. All these are vital *ingredients to reform* in an economy where the *enterprise* culture has long been stunted. The problem is, however, that Western partners do not necessarily approach such ventures with the same objectives.

Their desire is frequently to gain access to the Soviet domestic market for their products, while the Soviet Union itself seems more concerned with the development of a viable export industry that would reduce its dependence on raw material exports.

Meanwhile the Soviet Union continues reluctant to incur large new debts to finance imports of capital goods. Though it signed a DM3bn credit with German banks last year and an Ecu 680m line to finance imports from Italy, other mooted credits did not see the light of day and by Christmas it was clear that the Bank for Foreign Economic Affairs had backed away from a proposed *£1bn UK credit line.*

Economists who follow the Soviet Union believe that it would be out of character for Moscow to risk a large increase in its *indebtedness*, especially at a time when its oil export revenues are weak. Its traditional response has been to curb imports rather than borrow and for this practice to change would *signal* a *fundamental* shift in economic policy.

Many thus conclude that it will take several years before economic reform translates into closer ties with the West, although this process could be hastened by a realisation on the part of Mr Mikhail Gorbachev's administration that foreign help is needed to help provision the domestic market with consumer goods, thereby bringing some practical benefit from perestroika to the average Soviet citizen.

The urgency of this need was shown by a decision at the turn of the year to curb exports of consumer goods ranging from caviar to coffee and refrigerators, which will leave more supplies for the domestic market.

The philosophy behind this move suggests that Western producers of consumer goods will be encouraged to set up ventures in the Soviet Union bringing a new dimension to a trading relationship that has tended in the past to concentrate on heavy capital goods and industrial raw materials.

A practical problem with this remains, however, since such ventures will be expected to finance their hard currency costs with exports that may yet prove difficult to place in Western markets.

WORLD INDUSTRIAL REVIEW 7

The world's airlines are in the midst of a major re-equipment surge

Traffic expansion demands investment

ALTHOUGH the world's airlines are continuing to enjoy a growth in traffic, the air transport industry as a whole is faced with some significant problems.

These range from a less than satisfactory financial return, through to increasingly inadequate airports and shortcomings in many individual countries' air traffic control systems. Severe congestion both on the ground and in the air threatens to worsen as traffic expands.

The need to spend more on improving security both in the air and on the ground is also now becoming increasingly urgent, in the light of continued terrorist threats and actual attacks such as that which destroyed Pan Am Flight 103 over Scotland on December 21, with the loss of 270 lives.

During 1988, according to the International Civil Aviation Organisation, the overall volume of world scheduled air passenger traffic rose by 4 per cent, to reach a total of nearly 1.1bn.

Although this was below the growth of 7 per cent in 1987, and in fact the lowest since 1983, it nevertheless masks the fact that in some regions of the world growth has continued at substantially higher levels, especially in Western Europe and in South East Asia.

For the immediate future, growth on a global basis is generally expected to average between 5 and 7 per cent a year, at least until the mid-1990s, although it will still continue to vary widely according to region. As a result, most aviation organisations, such as airport planners and air traffic control authorities, are operating on the assumption that the 1988 level of nearly 1.1bn world scheduled air travellers will double by the end of the century, and continue rising beyond that.

To cope with such expansion, the world's airlines are in the midst of a major re-equipment surge. This has already resulted in an outstanding order book for some $72bn of new jet airliners, with Boeing, the world's biggest jet builder, estimating that between now and the year 2005 there will be spending of a further $342bn on jet airliners of all kinds.

Of that, about $242bn will be spent on buying new jet airliners to cope with traffic growth, while about $100bn will be spent on replacing existing ageing aircraft that are also becoming unacceptable in terms of noise and pollution as many governments impose increasingly stringent regulations.

Michael Donne on this page examines prospects for the world's aerospace industries. Growth may mean restructuring and will not be without its problems

Boeing further estimates that these outlays will add about 7,500 new jets to the overall world airline fleet. After allowing for aircraft retirements due to age and environmental unacceptability, the overall world fleet by the year 2005 will be around 11,700 aircraft, compared with the 7,800 at the end of 1988 – a net gain of 3,900 aircraft.

The traffic expansion is already throwing considerable strains on the air transport system as a whole. In financial terms, the world air transport industry collectively earned a net profit of only $800m on revenues of $107.5bn in 1987, a return of only 0.7 per cent.

The overall profit figure masks the fact that while some airlines earned significant profits, such as British Airways, many others throughout the world incurred losses. But the International Air Transport Association has forecast that, on scheduled services at least, its own member airlines should show an improvement for 1988 with profits of over $1bn.

Because of this financial situation, finding the cash to finance the new fleets of aircraft required to cope with the anticipated traffic growth could result in a substantial increase in the industry's overall debt burden, which on aircraft for scheduled services alone amounted to $1.6bn in 1987.

This debt almost certainly rose further during 1988 as the number of new jet aircraft firmly ordered rose to a new record level of 1,047 aircraft, worth in all some $47.47bn, compared with the 726 jets, worth $39bn, firmly ordered in 1987.

But an increasing number of airlines is now resorting to the concept of operating leases to meet their re-equipment needs, with their new aircraft being bought by leasing companies or other institutions, and the airlines paying the leasing fees from the aircraft's own operational earnings, thereby keeping their balance sheets free of debt.

But the rising tide of passenger and cargo traffic is also creating problems in the ground sector of air transport. Throughout the world there is now hardly an airport that is not undergoing either modernisation or expansion to enable it to cope with both actual and anticipated traffic growth. Many countries also have plans for new airports.

It has been estimated that total spending on airports world-wide between now and the end of the century will amount to some $150bn in construction terms alone, together with some $50bn to equip them, and to provide the essential improvements in air traffic control systems.

If such figures seem large, it must be borne in mind that some of the major new airport projects either planned or under way, are multi-billion dollar programmes in their own right, such as that for Osaka, Japan, and for Hong Kong.

In the UK alone, new airport terminal building and other ventures, either under way or planned, include the new terminal at Stansted in Essex; the second terminal at Manchester airport; and the new rail link between Paddington Station in London and Heathrow Airport. Together with major new airport hotels at Heathrow, Stansted and Gatwick, these projects will collectively cost close to $2bn.

It is also now considered essential by many aviation analysts to adopt a new approach to ensure improved security on the ground and in the air throughout the world. Recent terrorist threats and actual attacks have demonstrated that no airline and no country can regard itself as being immune: the tougher measures now required must themselves be world-wide in application.

They must begin from the initial conception of airport and terminal building development. The time has gone for ever when security facilities could be introduced into airport terminals, and even into airports as a whole, as afterthoughts to cope with problems as they arose. It is becoming increasingly accepted that such precautions, or the facilities to provide them, must now be designed into all new airports or individual terminals as integral aspects of their overall function from the start, and that tighter security checks on passengers and baggage must now be accepted as a necessity for many years to come.

Inevitably this will add to the costs of airport design, development and operation. While governments may pick up some of those bills, it seems inevitable that a substantial part of them will be passed onto the passengers, and that the latter will be obliged to accept them as the price of greater safety.

At the same time, investment in both the qualitative and quantitative aspect of the world's air traffic control and aerial navigation systems is also increasing to cope with the anticipated growth. In the UK, new investment of more than $1bn is planned by the mid-1990s to expand and improve what is already regarded as one of the world's most efficient air transport systems.

Substantial additional spending will also be necessary throughout much of the rest of Western Europe both to bring existing ATC systems up to the levels required to meet traffic growth and to improve the co-ordination between individual national systems so as to avoid the severe congestion that occurred during peak travel periods in 1988.

In communications and navigation, the era of the aeronautical satellite is now dawning. A special committee set up by the International Civil Aviation Organisation on Future Air Navigation Systems (FANS) last year concluded that only satellite technology could provide the necessary global solution to current shortcomings in the air navigation and in-flight communications systems. The use of such advanced technology could bring estimated annual benefits to world aviation of between $5.2bn and $8.6bn, but the details of the system still have to be worked out on an international basis.

WORLD SCHEDULED REVENUE TRAFFIC IN SHORT TONS AND STATUTE MILES

Year	Passengers carried	Freight tons carried	Passenger miles performed	Seat miles available	Passenger load factor	Freight	Mail	Total (passengers + baggage, freight and mail)
						Ton miles performed		
			Millions		%	Millions		
1979	754	12.1	669,000	999,000	65	19,180	2,350	88,900
1980	748	12.2	677,000	1,071,000	63	20,120	2,520	89,710
1981	752	12.0	695,000	1,092,000	64	21,150	2,600	92,600
1982	765	12.8	710,000	1,115,000	64	21,800	2,650	94,840
1983	798	13.6	739,000	1,151,000	65	24,050	2,740	100,270
1984	847	14.8	794,000	1,225,000	65	27,160	2,950	108,970
1985	896	15.1	849,000	1,292,000	66	27,270	3,010	114,750
1986	953	16.2	902,000	1,388,000	65	29,580	3,100	122,380
1987	1,025	17.6	986,000	1,470,000	67	33,040	3,210	134,280
1988*	1,068	19.3	1,050,000	1,555,000	68	36,260	3,310	143,980

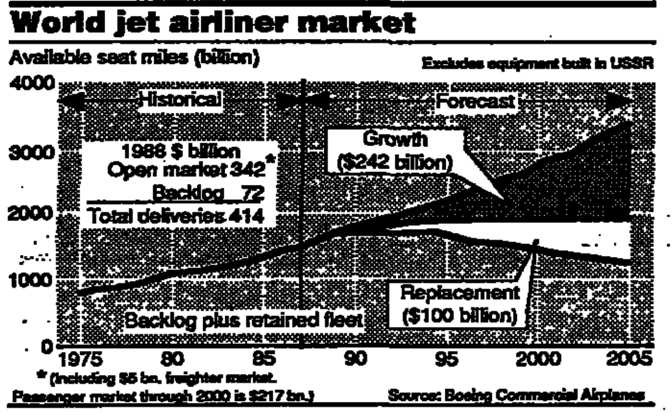
*Preliminary estimates. Exclusions: States not members of ICAO in 1988

Source: ICAO (December 1988)

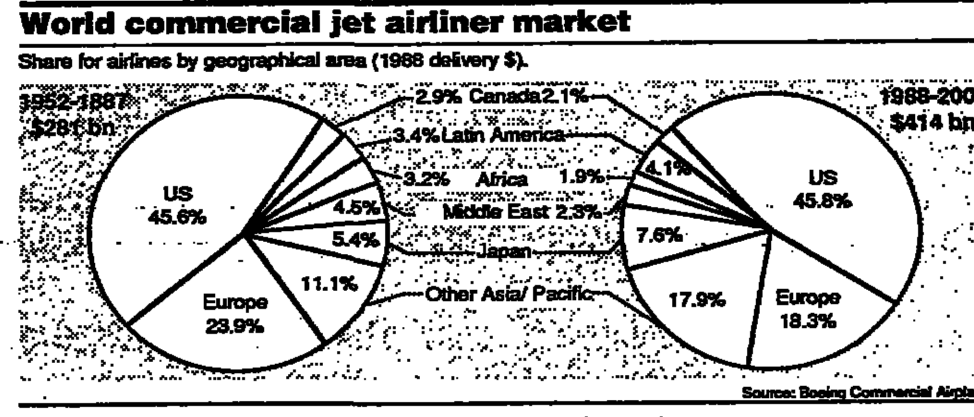
Heathrow after an Iranian airliner was shot down in the Gulf

Congestion on the ground will worsen as traffic expands

World jet airliner market



World commercial jet airliner market



The shape of the industry will change

Competition likely to intensify

BETWEEN now and the end of the century, the world's aerospace industries are collectively expected to enjoy business worth more than $1,800bn (£1,000bn), covering civil and military airframes, engines, avionics, guided weapons and spacecraft of all kinds.

But the shape of the industry is likely to change considerably, with increasing concentration upon international collaboration as costs rise and competition for markets intensifies. There may even be some major mergers, especially in the equipment and components section of the industry.

To cope with the rising tide of passenger and cargo traffic (with scheduled service passengers alone world-wide expected to amount to more than 2bn a year by the end of the century) spending on commercial aircraft is expected to amount to more than $460bn.

Of that, about $414bn is expected to be spent on new jet airliners ($242bn on new aircraft to meet traffic growth, another $100bn to replace existing fleets, and $72bn already committed for aircraft yet to be delivered), with around another $50bn being spent on smaller turbo-propeller powered regional airliners of all types.

There will also be heavy spending on improving and expanding the ground sector of commercial aviation, to enable it to cope with the traffic growth. Outlays on modernising existing airports or building new ones are expected collectively to amount to about $150bn, with at least another $50bn on equipping them, including provision for substantially increased outlays on improving the air traffic control system.

In the military field, in spite of the tightening of some defence budgets, overall spending over the next 11 years is likely to amount to around $700bn, of which about $550bn will be spent on new tactical combat aircraft, with another $150bn on military transports and specialist aircraft, such as tankers and airborne early warning aircraft.

Major projects already under way include the new European Fighter Aircraft (EFA) and new advanced tactical fighters for the US Air Force and Navy, along with the US B-2 long-range strategic bomber. Military helicopters, including such new ventures as the West European Anglo-Italian EH-101 multi-role aircraft, will account for about $50bn, with the biggest individual share likely to be spent in the US for such major new ventures as the LHX Army multi-role helicopter.

Guided weapons of all types will account for another $200bn, while spacecraft, including launch vehicles such as the US manned Shuttle space-transport system and the European unmanned Ariane rocket will also account for around $200bn.

Some of these estimates may well prove to be conservative, but even so it seems likely that the world's aerospace industries as a whole will remain exceptionally active through the rest of this century.

But although there will be no shortage of work, the competition for it will intensify. While there will be fewer individual new ventures across the spectrum of aerospace, the production runs on some individual ventures will be considerable, involving many hundreds of aircraft and engines.

The reason is that development costs in all sectors of aerospace are continuing to rise, as the industry continues to spearhead the most dramatic advances in technology and the complexities of all types of aircraft, engines, missiles and spacecraft themselves increase. The inevitable result will be a limit to the number of new ventures on which available resources in money, facilities and technical manpower can be spread.

This situation has already started to generate a corresponding expansion of international collaboration, both to spread the burden of costs and to widen eventual markets for the projects involved. The joint venture European Fighter Aircraft (EFA) between the UK, West Germany, Italy and Spain now dominates the European military field, with the rival French Rafale coming a long way behind, although the multi-national Tornado combat aircraft venture between the UK, West Germany and Italy is also expected to continue until the late 1990s or even into the next century.

But while there are many studies under way for other types of military aircraft, including a new transport to replace the ageing Hercules C-130 and a new multi-national tactical helicopter, it seems likely only a few of these will come to fruition, so that the existing major ventures, such as Tornado, EFA and EH-101, will dominate the European military scene at least through to the mid-1990s

As a result, those airframe, engine, component, equipment and other suppliers that have not yet won contracts on any of those major military ventures, either individually or on a collaborative basis, will face a bleak future.

Similarly, there is a limit on the number of new commercial aircraft ventures that the market can bear, and in this field also international collaboration is increasing.

The European Airbus consortium, comprising the UK, France, West Germany and Spain, with associates in The Netherlands and Belgium, is now the prime example of international collaboration in commercial aircraft development.

Airbus especially has demonstrated that with vigour and highly competitive designs it is possible to break into the hitherto US-dominated world market, and the European group has succeeded beyond expectations with its A-320 twin-engined short-to-medium range jet, which is now a formidable rival to both Boeing and McDonnell Douglas of the US.

But in spite of currently booming demand for new jet airliners, all the 'big three' makers have been obliged to limit the number of new ventures they are undertaking, because of high development costs and market resistance.

The trend in recent years has been for each manufacturer to develop derivatives of its existing aircraft models so as to provide 'families' of jets to meet most of the likely demands from the airlines through the rest of this century.

There have been only a few exceptions to this derivatives rule. Airbus itself, in order to broaden its product range to compete with the two US giants, has introduced two new types, the A-330 short-to-medium range high-density twin-jet and its companion the four-engined long-range A-340. But it has done so with minimum cost by designing a substantial element of commonality into those two aircraft – common wings and systems, for example.

Even the McDonnell Douglas MD-11, although much publicised as a new aircraft, is a longer-range higher-density derivative of the earlier DC-10 tri-jet.

This trend towards derivatives seems likely to continue for a considerable time to come. The only possible break in that situation will emerge if fuel prices for any reason move upwards steeply, generating a demand for aircraft of much greater fuel efficiency.

Such a situation could create the long-awaited breakthrough for aircraft using the revolutionary new concept of 'unducted fan' or 'pro-pan' types of engine, which it is claimed will give fuel savings of up to 25 per cent compared with current generation turbo-fan engines.

Both McDonnell Douglas and General Electric of the US have been closely studying the development of such 'UHB' powered airliners, and are currently seeking orders for the first model, the short-to-medium range MD-91.

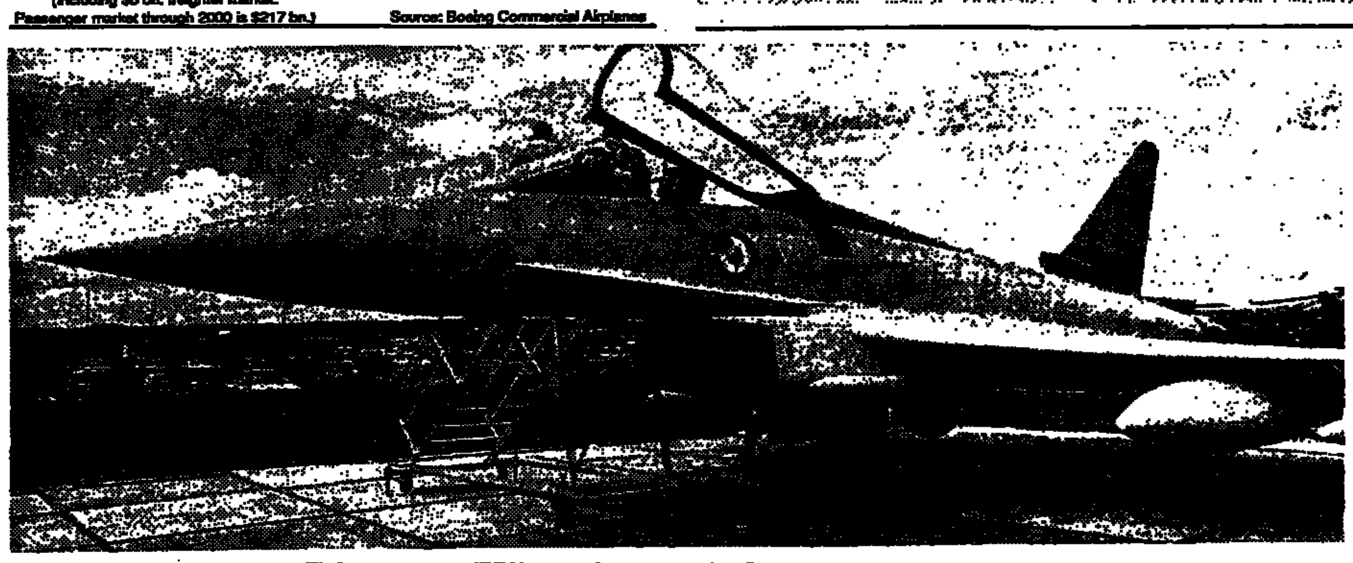
But so far, with aviation fuel prices still low, airlines are showing little desire to adopt such a revolutionary new type of aircraft, and both McDonnell Douglas and GE may face a difficult task in the years immediately ahead in winning sufficient contracts to launch their new venture.

Another factor in the global aerospace scene that may well have far-reaching implications for the future is the trend for more and more countries, especially in the developing world, to seek to establish new aerospace industries of their own or expand existing ones.

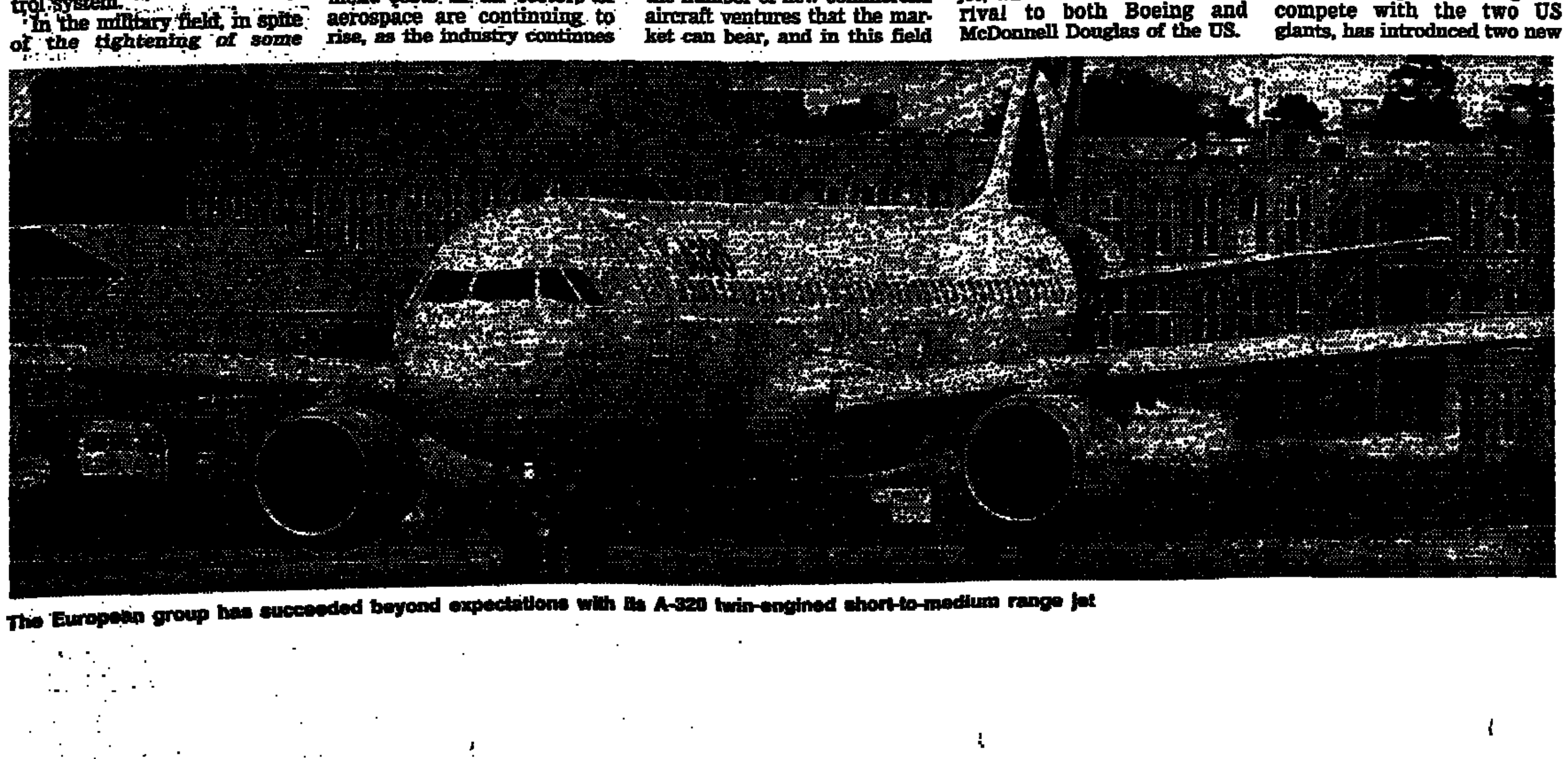
Lacking initially the cash and the technological facilities and knowledge, those countries are turning increasingly to the more advanced aerospace nations of Western Europe and the US for assistance, with the result that companies in the latter are increasingly arranging partnership agreements which help to develop the weaker industries.

The extent to which the industries of the more powerful countries will continue to do this will depend upon how swiftly their weaker partners develop. There are some fears that the latter may mature far more quickly than expected, and start to take over markets in which the stronger industries are already dominant.

In the meantime, however, the industries of the West are finding it convenient to go along with these aspirations of the developing countries, largely because they have so much work themselves on hand that they need the production facilities the others can offer. How long they will be prepared to do so, remains one of the big outstanding questions in global aerospace industry development.



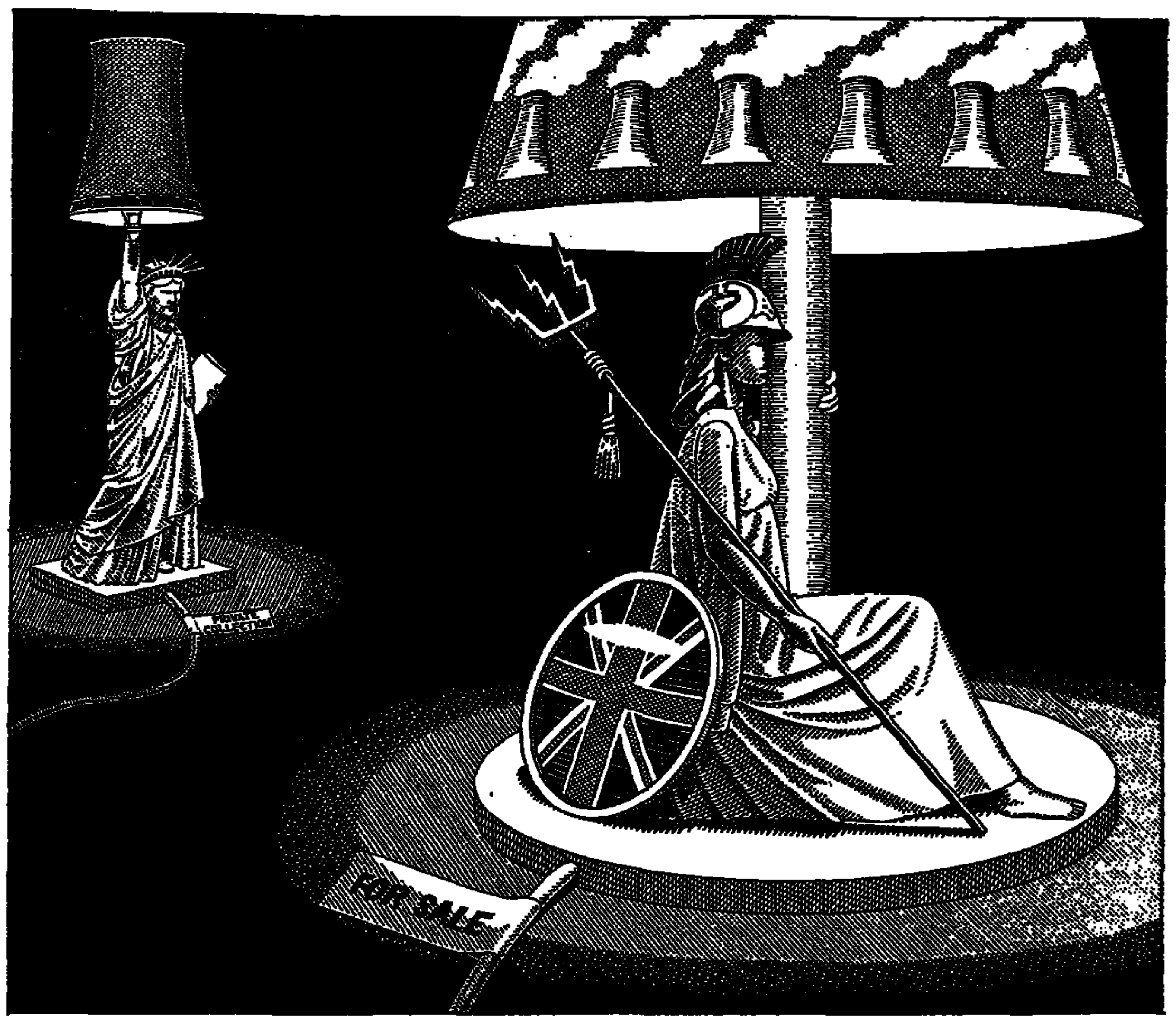
The joint venture European Fighter Aircraft (EFA) now dominates the European military field



The European group has succeeded beyond expectations with its A-320 twin-engined short-to-medium range jet

SECTION IV

FINANCIAL TIMES SURVEY



ELECTRICITY

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In the US and the UK the electricity supply industries are feeling the first stirrings of profound change. Potentially important developments also await the sector in the European Community as member countries prepare for 1992, writes Max Wilkinson, Resources Editor

First tremors of upheaval

AMERICANS looking at the UK Government's plans to break up and sell the state-owned electricity industry often ask: "If it works, why change it?"

However, the US electricity supply industry is also in a period of profound change, which is beginning to move on a parallel course, although more slowly and from a different starting position. On both sides of the Atlantic this vast industry is feeling the first stirrings of revived growth, to which it will have to adapt in radically new ways.

The old presumptions of electric utilities during the two decades of growth after the Second World War have almost gone. In the US, they have been dying slowly since about 1975 under the stress of repeated conflicts with regulatory commissions.

In the UK, they were strangled peremptorily last year by the Government's privatisation plans. In continental Europe, too, the preparations for a single market in 1992 and the example of de-regulation in the UK have led to a questioning of old ideas.

The traditional assumption of utility managers during the 1950s and 1960s was that their main job was to find engineering solutions to meet rapidly rising electricity demand. If they did a reasonably good job, society would automatically pay for the plant through appropriate electricity tariffs.

In the US, the mainly privately-owned utilities could claim a fair return on the capital invested by their shareholders. In the UK, the investment was financed at fine interest rates by Government borrowing. In both systems utility managers had few financial worries, provided that they were seen to be meeting a national need.

The break-up of consensus between US utilities and their regulators during the years of rising prices and surplus capacity is described in a later article. In Britain, a similar process was happening much less visibly. The Treasury was becoming increasingly anxious about the tendency of the industry's huge appetite for capital, its over capacity and and its failure to control costs, particularly in the nuclear sector.

But the battles about price rises were almost a mirror image of those in the US. The UK industry, which had no interest in profits wanted low prices to increase sales, while the Treasury pushed for price rises to give a better return to the owners (taxpayers). These tensions contributed to the UK Government's decision to break up the industry for its greatest sale yet.

The resulting structure, with 12 distribution companies and two generating companies separated by a relatively independent transmission grid, bears some resemblance to the model towards which the US system is gradually evolving.

At present most of the larger US utilities are vertically integrated and own the transmission network within their areas. Many, particularly on the East Coast, are being encouraged strongly to seek bids from independent generators to meet additional needs for power.

In time, this may lead in some areas to a horizontal split between generators and distributors analogous to that proposed in the UK. But even if the structures do not converge, many of the most important issues confronted by the industries in both countries are remarkably similar. They include:

- Developing a style of regulation which keeps a tight hold over costs and prices and some oversight of strategy without stifling initiative and competition where it is possible;
- Stimulating economic efficiency by ensuring that prices track costs;
- Writing contracts for independent power producers which represent a fair apportionment of risks and can survive in changing circumstances;
- Reconciling the desire of independent generators to keep their plant running and the system's requirement for "despatchability", that is the ability to switch it on and off as demand varies;
- Opening up the transmission network for competition without jeopardising the reliability of the system, creating an unfair advantage for larger customers or loading excessive costs onto captive consumers.

However, the most visible problem faced by utilities in the US, the UK and in other parts of Europe is what to do about the future growth of demand. In the UK, the Central Electricity Generating Board says that some 15 Gw (15,000 Mw) of new plant will be needed by 2000. In the US, the Department of Energy believes at least 100 Gw will be needed and maybe very much more.

Such forecasts will be regarded with extreme caution by US utilities and the distribution companies in Britain. They all dread the financial consequences of repeating the over-ordering of the 1960s.

In the two decades from 1965, for example, the Los Angeles-based South California Edison company projected the need for some 34 Gw of additional capacity in its territory, of which only 9 Gw was actually needed. By cancelling projects and abandoning plans, the utility kept supply roughly in step with demand, but many others were less lucky – or less skilful.

Apart from the notorious difficulty of forecasting energy trends, there are several reasons why utilities are likely to be cautious at present. In the UK, some consultants advising the industry on the basis of the US experience have suggested that the actual need for new plant may be very much less than the CEGB believes.

There are several reasons. Older plant may be refurbished so that its life is considerably longer than expected; industrial and commercial companies may be persuaded to make more use of their stand-by plant at peak times; and the system may be able to meet peak demands with much smaller machines rather than building "smokestack" power stations.

On top of all this, utilities must consider the rising political concern with environmental pollution and the global warming or "greenhouse effect" which is supposed to result from carbon dioxide emissions.

These concerns are inevitably linked to the pressure for more vigorous energy conservation measures, because every megawatt of electricity saved represents power plant which will not have to be built and coal which will not have to be burnt.

The potential scope for such savings could be huge. Dr Amory Lovins, director of the Rocky Mountain Institute in Colorado, an environmental research group, believes that around three quarters of the US's total electricity consumption could be saved by a variety of efficiency measures at an average cost of 0.6 cents per kwh, far below the average cost of generating power.

Even if Dr Lovins is much too optimistic about the scope for improved efficiency, it is clear, as the British Energy Efficiency Office and Californian utilities have both found, that very significant savings are possible with short payback periods for the investment.

In the US, there are strong moves to require utilities to consider conservation as an alternative to new generation when planning new investments, and although the UK Government's privatisation contain few direct incentives to conserve, the recent emphasis of Mrs Margaret Thatcher, UK Prime Minister, on the environment may change this.

For all these reasons, it is likely that electricity planners will be very cautious in ordering large coal or nuclear plant for many decades to come. In Britain the new private utilities will be exposed to risks similar to those which have wrought such great changes in the US in the past decade and a half.

The indications are that their response will be similar: to minimise capital risk by ordering small flexible plant, like combined cycle gas turbines, and to push back as much risk as possible on to the generating companies. New technologies are making such plant appear more economically attractive, though they still tend to be cheaper to build but more expensive to run than conventional plant.

Competitive bidding for new power projects may help to establish fair prices, but it is likely to pose an unfamiliar set of problems to regulators on both sides of the Atlantic. They will need to be sure that the higher profits required by independent generators are a fair reflection of their risks, that the smaller plant does not reduce the long-term efficiency and reliability of the system as a whole, and above all that contract terms are not being designed to exploit regulations and pass excessive costs on to consumers.

In solving these problems the regulatory systems in the US seems likely to converge on that proposed in Britain. For in a world of competing generators, surrounded by strong monopolies in transmission and generation, the regulator will have to ensure that the competition can emerge fairly without paying tribute to vested interests.

As Mr Charles Stalon, a member of the US Federal Energy Regulatory Commission said recently: "US regulatory policy is at a crossroads." It might be said that UK regulatory policy is driving at full speed to the junction.

Max Wilkinson on the search for a viable regulatory system

A maze with few exits

AS BRITISH officials drafting the rules for the soon-to-be privatised water and electricity industries enter the maze of regulatory policy, they are meeting more and more American counterparts struggling to find a way out.

In the US there is now a widespread belief that the "regulatory bargain" which was *the basis of a stable and apparently successful age of development* for the US's private electricity companies from the 1930s to the end of the 1960s, has been broken, perhaps for ever.

The old consensus was that in return for a monopoly franchise utilities would guarantee to meet all demands for power in their area. Provided their investments were prudent, and their running expenses not too extravagant, they would be allowed to pass on all their costs to customers plus a margin to give them a "fair" return on capital.

However, at the time that British Telecom, and later British Gas were being prepared *for flotation, the US regulatory* system was the subject of tales of confusion, litigation and commercial disasters.

The consensus on which the old "rate of return" regulation was based had broken down. *Until the late 1960s, low inter*est rates and increasing economies of scale had allowed electric utilities to reduce prices steadily.

But by the mid-1970s the tide was running against the utilities much *more* strongly than many of them realised.

The rapid rise in oil prices, increasing capital costs and construction delays, especially for nuclear plants, stronger pressures to protect the environment, and disappointing performances by some of the larger units, all combined to raise costs and prices.

Environmental and consumer lobbies were then able to use the open democratic structure of the US regulatory system with devastating effect, sometimes delaying applications for tariff increases by many years.

As a result many US utility managers believe that building large new power stations has become too risky, since regulators may not allow them to pass on the capital costs to their customers without a lengthy argument.

Mr Charles Stallon, one of the commissioners for the US Federal Energy Regulatory Commission, told a London audience recently that the failures in the old regulatory system would lead to "fundamental changes" in the US electric supply industry.

"I am convinced that it will be difficult to save this system, though its adherents argue that it can be resuscitated," he said.

The first reaction of the UK Government was to dispense with many of the open quasi-judicial style of US regulation, which were seen to have created far too many opportunities for lobbyists and lawyers. Instead of three to five politically appointed commissioners, UK regulatory bodies would be headed by one official appointed by the government, operating largely in private session.

The second decision was to concentrate the regulator's fire on average prices to consumers rather than on the utility's costs and capital spending.

For gas, domestic prices were to be allowed to rise by *the rate of inflation* less an arbitrary figure "X" set at 2 percentage points, the exception being that rises in the cost of gas purchased from the North Sea would be passed through without any regula*tory oversight of the utility's* purchasing policy, nor of its activities in the industrial sector.

This regime is now widely seen to have been too light, and the regulator's powers are being strengthened. Partly as a result, the regulations under which the electricity and water industries will be privatised are extensive and detailed and are moving much closer to the US tradition of "rate of return" regulation.

For electricity, the familiar price cap in the form of "RPI minus X" has been retained. Indeed, three separate RPI minus X formulae will be applied: to consumer prices; to prices for the local distribution service; and to the tariff schedule for the use of the national high voltage transmission.

These formulae have widely different significance, however. In the transmission sector, for example, the X term will include an allowance for "a reasonable rate of return" on capital spent improving the grid.

This is similar to the traditional concept of US regulation, although the formula will allow prices to rise almost automatically until the regulator intervenes to review its terms, perhaps every five years.

At the sharp end of the industry, price rises to consumers will also be governed by "RPI minus X", but more significantly the industry will be allowed to pass on generation costs, designated by a *term "Y" in the formula. This* will include an allowance for distribution and transmission costs and for a special levy to finance nuclear power.

It will be based partly on each of the 12 distribution utilitie's own costs and partly on those for the industry as a whole. So those which beat the average can make higher profits.

But this "yardstick competition" is clearly a game which only *some* can win. The *major* focus of its restructuring is on the promotion of competition in the wholesale and industrial markets and the encouragement of independent power producers.

In this it is going far beyond what is generally considered feasible in the US, although the opening up of transmission and the independent generation sector have attracted increasing interest from regulators and utility managers in recent years. In Britain the Government has the advantage of owning the whole system and is unhampered by conflicts between state and federal jurisdiction.

In the US there is now a widespread belief that the "regulatory bargain" which was the basis of a stable and apparently successful age of development for the US's private electricity companies from the 1930s to the end of the 1960s, has been broken, perhaps for ever

However, the regulatory problems remain formidable and not dissimilar on both sides of the Atlantic. For transmission, *the major challenge is* to find a way of setting tariffs which are reasonably close to true costs.

This is particularly difficult because costs can vary by a factor of several hundreds depending on the time of day and the direction of flow. And power can flow in quite unexpected directions in an electrical network, and only a computer can calculate the exact paths.

The other big challenge is to accommodate competition between independent power producers in a regulatory framework. The US federal Energy Regulatory Commission has attempted this by drafting new rules to facilitate competitive bidding for power contracts.

The British Government is following a similar approach, although the mechanism will be different. The common problem, however, is to determine *how far competitive bidding* in the wholesale power market can be allowed to replace traditional regulatory scrutiny. Many in the American industry hope it may. Some British ministers devoutly believe *it* will.

Yet even if competition to build and run power stations becomes established regulators will still need to remain on their toes.

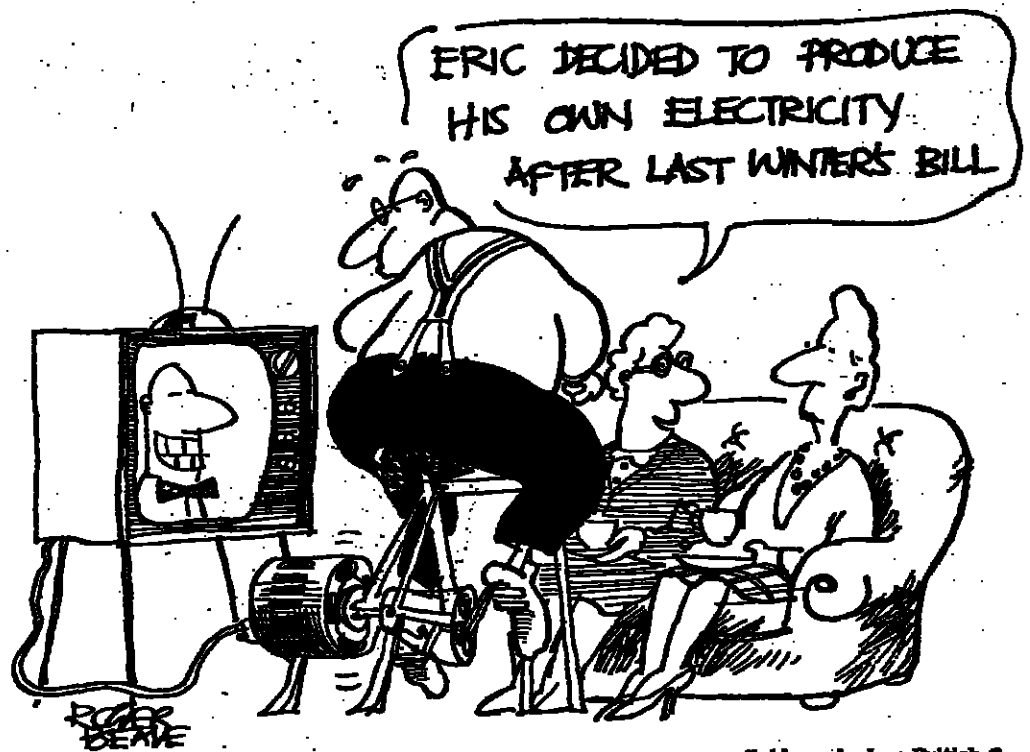
Typical power contracts in the US last for between 15 and 20 years, during which time the purchasing utility will pay all the capital costs and a predetermined energy charge to cover the fuel used. On both sides of the Atlantic these *costs* will be passed directly down to consumers in the monopoly sector of the market.

That is the new bargain, sanctified, to be sure, by enforceable contracts. If the contracts turn out to be a good deal, everyone will be happy. But if fuel prices fluctuate as wildly in the 1990s as they did a decade ago, consumers will doubtless become active once again.

That is one reason why utilities are anxious to push much of the risk onto the independent sector. But they and their customers pay a premium for this, so regulators will increasingly need to ask whether this is value for money.

The new competitors

Challenge to the big is beautiful concept



IT IS difficult to detect the first tremors in the lengthy dissolution of a large empire. But that is the process which appears to be starting in the electricity supply industry.

Utilities in several western countries are questioning the conventional wisdom that economies of scale justify ever bigger power stations to meet a growing electricity market. *Instead,* a significant proportion of new capacity is being provided by small-scale plants developed by independent companies using a wide range of new technologies and fuels.

The trend is not universal. The biggest Third World countries, led by China and India, are still building large power plants of up to 2,000MW in grandiose electrification programmes reminiscent of those in the US and the Soviet Union between the First and Second World Wars.

France is committed to a rigid policy of building an array of 1,300MW nuclear stations, giving it Europe's biggest electricity surplus.

But in the US, UK and other parts of Europe and Scandinavia, the tide is running in the opposite direction, with major implications for utilities and the combustion equipment sector.

The change stems from a complex mixture of factors – commercial, environmental, technical and political – which favour smaller units at the expense of big ones.

It began with the oil shortages and recession of the 1970s. These slashed electricity demand and froze investment in big projects notorious for their long lead times. Then came the slow-down in nuclear programmes due to safety fears so that by the time electricity *demand* was recovering there was an additional need for capacity which could be built rapidly.

Simultaneously, the economics of conventional coal-fired power stations, which had seen *a resurgence after the flight* from oil, were affected by the need to meet ever tighter environmental standards.

This has intensified interest in cleaning up emissions from existing power stations as well as new coal burning technologies – fluidised bed combustion and coal gasification.

The environmental issue has also enhanced the attractiveness of natural gas. Once regarded as too scarce for power station use, *it is now* increasingly abundant and can be used in high efficiency burners, such as combined cycle machines whose hot exhaust gases drive a second turbine.

These innovations have been given a political impetus by governments eager to encourage more diversity and competition in electricity supply. In the US, this took the form of the 1978 Public Utility Regulatory Policies Act (Purpa), which set the stage for partial regulation of the wholesale power market.

The Act requires utilities to buy electricity from certain independent companies which can make good use of the waste heat from electricity generation. A decade later, the total capacity of the 3,720 Purpa generators, built or planned, had reached 62,000MW, 9 per cent of the national total.

In the UK, the Government's privatisation proposals are giving the electricity industry the biggest shake-up in its history. However, with the legislation still in its early committee stage, the final extent of some of these changes remains to be seen.

In the US, where electricity demand is growing by 2-3 per cent a year, utilities are expected to need the equivalent of 250 new 1,000MW power stations over the next 20 years, five times the present total capacity of England and Wales.

But according to the Electric Power Research Institute (EPRI), financial restraints and less predictable demand mean that utilities are likely to meet this need by concentrating on extending the life of existing stations rather than by replacing them with plants of similar size. They will also deploy new technologies more appropriate to small-scale power stations, mostly well below 500MW.

Similar intentions have been aired in Britain, where the promise of an open electricity market has prompted a rash of new power station projects by independent operators.

Mr Malcolm Edwards, a senior director of the British Coal Corporation, has called it "the loosening up of the bottom end of the electricity pyramid".

Of the 15 or so proposed new stations, all but two are well below 500MW, in contrast with the 1,800MW reference size for the new coal-fired power stations proposed by the soon-to-be abolished Central Electricity Generating Board.

The East Midlands Electricity Board, which aspires to generate more than 15 per cent of its power independently, is associated with three projects: a 350MW gas plant at Corby; a 120MW fluid bed coal plant at a Nottinghamshire pit (in collaboration with British Coal); and a 100MW gas plant at Leicester, which would also sell waste heat to homes and industry.

The main restraint at present is the failure of any of the proposed gas stations to secure a long-term contract from the British Gas Corporation. But that may become easier in the next few years when more North Sea gas fields become available and when British Gas is forced to ease its monopoly hold on the market.

Otherwise, the similarity with the US is underlined by the close interest with which these projects are being followed by US financial institutions and electricity companies. The former include GE Capital, the financial services arm of General Electric of the US, which in the past seven years has invested $4bn in about 30 US power stations, several of which were smaller than 10MW.

In Britain, plants smaller than 100MW may be favoured by the Government's proposal to exempt them from detailed control by the National Grid Company, which will direct the running of all larger plants on the basis of economic merit.

Entrepreneurs wishing to build plants of 100MW fear that this will prevent them from securing the long-term contracts of between 15 and 20 years needed to recover the large capital costs of construction.

If that happened, it would prove highly embarrassing to Mr Cecil Parkinson, the Energy Secretary, who has made increased diversity in electricity supply one of the main justifications for privatising the industry. It would also give the last laugh to the engineers of the CEGB, *most of* whom have not yet abandoned the concept that when it comes to power stations "big is beautiful".

A significant proportion of new capacity is being provided by small-scale plants developed by independent companies using a wide range of new technologies and fuels

Maurice Samuelson

What price nuclear?

High risk, low returns

IN SOME respects, the conditions for a revival in the commissioning of nuclear power plants would appear to be good. Right-wing parties are in the ascendancy in many countries and nuclear power has always tended to draw stronger support from the Right than the Left. There is also mounting public concern about acid rain and, more recently, the greenhouse effect, problems which would appear to be helped by increasing nuclear capacity.

This situation is exemplified in the UK where the Government is taking positive steps to ensure the future of nuclear power in the soon-to-be privatised electricity supply industry. What, then, are the prospects of a revival in nuclear power's fortunes.

First, nuclear power will need to show a clear economic advantage over its rivals. It was not always thus. Early reactors were largely justified on strategic grounds and the large crop of orders in the decade after the mid-1960s were sustained on unduly optimistic economic appraisals.

The first oil crisis in the early 1970s improved the economics of nuclear power at a stroke but the steep decline in fossil fuel prices in the 1980s again spotlighted the steadily escalating capital and running costs and the often disappointing operating performance of nuclear power plants.

Today few would argue that nuclear power has any real economic advantage over coal-fired generation or its new competitor, combined cycle gas.

In the UK, the higher rates of return that private ownership is likely to require from the electricity supply industry deals an additional blow to a technology as capital intensive as nuclear power. Indeed, it is becoming apparent that the Government's twin objectives of selling the electricity supply industry and promoting nuclear power may not be compatible.

On the one hand, the City will not find nuclear power attractive unless it is guaranteed a return on its investment. On the other hand, the Government will find it difficult to justify a situation where 80 per cent of the electricity supply industry is exposed to the full force of competition while the nuclear portion stays on a cost plus basis.

The problem *is that* for most costs incurred in nuclear power the industry either has a blank cheque from the taxpayer/consumer or it has a large, potentially open-ended liability to meet from its own resources.

To understand why financiers see nuclear power as *such* a risky investment and why it is so difficult to split costs equitably between consumers and shareholders, it is necessary to look back at the experience of the sector in the US.

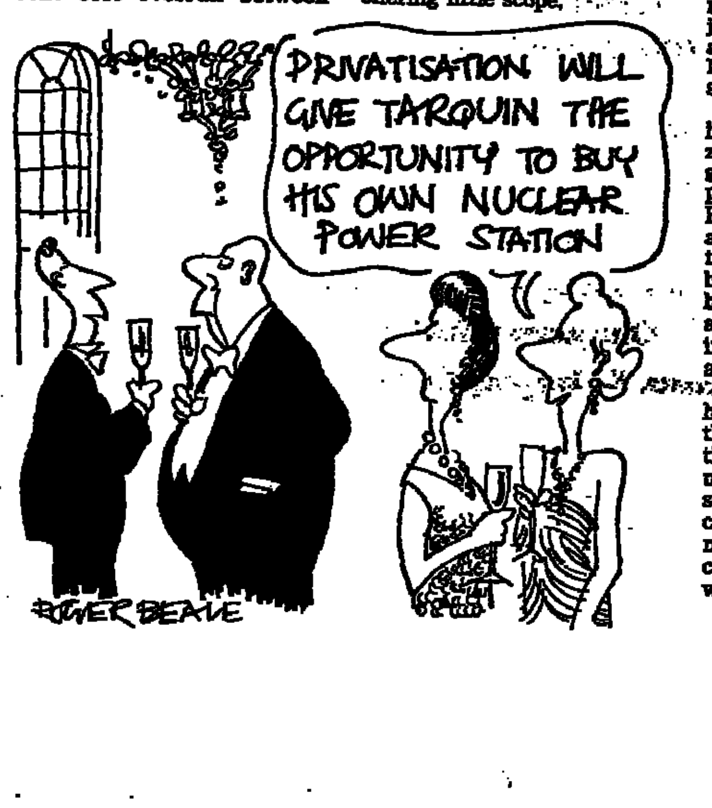
In the US, issues such as deciding who should pay the extra costs associated with a reactor that was expected to achieve an 85 per cent load factor but only achieves 65 per cent, apportioning a 200 per cent cost overrun between changing regulatory standards and utility incompetence, and deciding who should pay for a redundant reactor ordered on the basis of a grossly inaccurate forecast, have seldom been resolved to the reasonable satisfaction of both sides.

New nuclear orders are not a realistic option for the US for the foreseeable future.

Elsewhere, the debate is less overtly about economics and more about public acceptability. It is in the existing members of the nuclear power club, particularly the large ones, that nuclear power's *fortunes* will be decided.

These countries can be broadly characterised into four groups: *those where* nuclear power is politically feasible and there is scope to expand its usage; those where *there* is no scope to expand nuclear power; those where nuclear power is politically unfeasible; and the large developing countries like China, India and Brazil.

The problem for nuclear power is that while the first group is contracting, the next two – particularly the third – are expanding with the fourth offering little scope.



Only the UK and the Pacific Rim countries of Japan, South Korea and Taiwan can reasonably be placed in the first. The Pacific Rim countries would still seem to offer scope for a rapid increase in demand for electricity coupled with political systems capable of overcoming opposition and building and operating reactors cost effectively.

France is the prime example in the second category. France's problems in finding markets for its under-used nuclear capacity are well-known, but it also faces serious difficulties in adjusting its reactor supply industry to its future needs.

Clearly, the last thing France needs is *more* nuclear orders, but with a stock of about 60 PWRs which will need to be serviced, repaired and supplied with spares for the next 40 years or so when they will need to be replaced and decommissioned, it cannot let the expertise of its reactor supplier, Framatome, decay.

In the third group, the long-established members such as Sweden and large parts of Germany have been recently joined by Italy, Switzerland and perhaps Belgium, with the Netherlands and Spain close to such a position.

The final group, which includes India, China and Brazil, all have the scope to use a great deal of nuclear power to promote industrialisation. However, in recent years their ambitious targets to expand the *use of nuclear* power have been cut, largely because of the high costs involved and the attractions of developing such indigenous resources as coal and hydro-power.

Overall, it is increasingly hard to avoid the conclusion that nuclear power's contribution to energy supplies may be near its peak. Future expansion may be only in those few countries able to meet its technical demands and with political systems willing to underwrite its costs.

Steve Thomas

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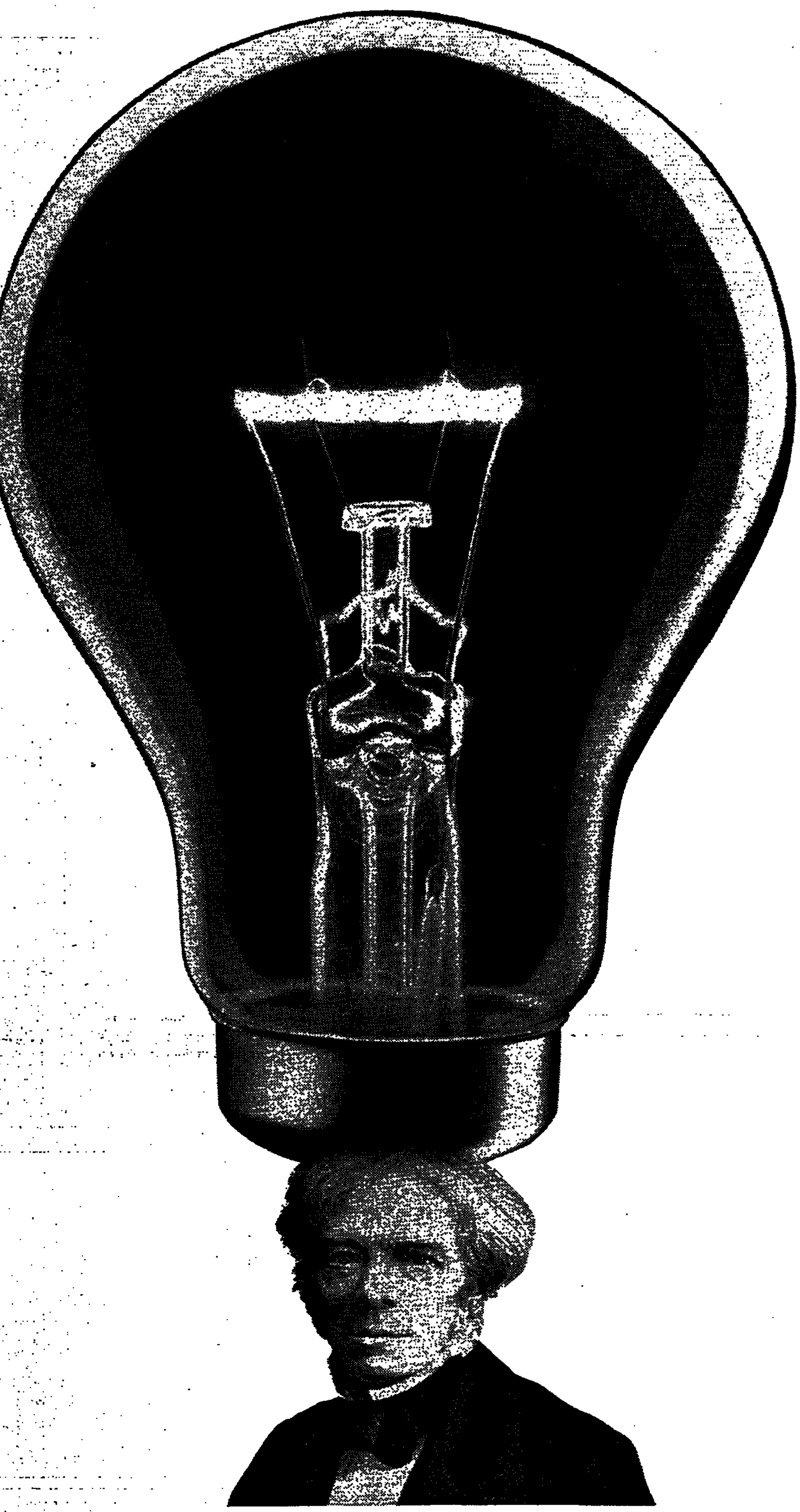


Mr. Faraday's idea was bigger than he knew.

Making electricity is simple, as Michael Faraday taught us in 1831. If you keep spinning a copper disc inside a magnet, you'll generate a continuous supply.

Generating enough electricity, on the other hand, has created one of the biggest businesses in Britain, with assets of around £25 billion.

Our turnover last year was more than £8 billion, our trading profit £590 million. We still use magnets and copper. But on a massive scale, 24 hours a day, 365 days a year.

And we use good old steam power to turn most of our turbines. But to get up a sufficient head of steam we need a massive fuel supply.

Our annual fuel bill is over £4 billion, more than half our total costs. So keeping fuel costs down is clearly essential for our business.

And for the nation's business. Just about everyone in England and Wales uses our electricity. We have to generate as much as is needed, at as low a price as possible.

So we use many different fuels; fossil and nuclear.

And we'll continue to seek new sources of power: to harness the wind and the tides and the heat beneath the earth's surface.

Our efforts are needed not only to keep prices down, but to satisfy a widely fluctuating demand, day and night, summer and winter; through storms and strikes and other acts of God or man.

That's the generating game: high stakes, tough rules and plenty of challenges. But it's a game we have to go on winning.

By using our magnets, like Mr Faraday said.

THE GENERATING GAME

CEGB

NATIONAL POWER. POWERGEN.

Andrew Holmes on an entrepreneurial spirit in a public utility

Culture clashes in the state's biggest sell-off

THE MAIN forces which have shaped privatisation of the electricity supply industry (ESI) have nothing to do with electricity.

The foremost consideration in the minds of the Government's planners, as the strategy for the ESI took shape in late 1987, was the behaviour of the privatised British Gas and, to a much lesser extent, British Telecom.

The months following the 1987 general election saw a spate of "horror stories" in the national press about the two recently privatised utilities. Whereas improved standards of service and lower prices had been among the promises of privatisation, they were far from evident in practice.

British Gas was increasing the rate at which it was disconnecting customers for payment defaults, while in its industrial market the first murmurs of discontent were being heard; these would culminate in the referral of BGC to the Monopolies and Mergers Commission. BT, meanwhile, was the subject of numerous complaints about prices and about the provision of public services.

Many Conservative back benchers believed that Sir Denis Rooke, British Gas's chairman, had railroaded the Government into letting him take his monopoly powers untouched into the private sector. The Government therefore decided that competition must be seen to be a central part of the plan for privatising the ESI.

But transmission is a natural monopoly and there is little opportunity for competition in distribution.

So competition had to be between power stations to supply the national grid, or to sell directly to major industrial customers. This could mean only that the Central Electricity Generating Board, the world's largest electric utility, had to be split up into competing units.

Although it has the appearance of a monolith, the CEGB is actually a federal organisation, with five "transmission districts" which handle the bulk supply of power to their regions, co-ordinated from the centre.

When privatisation was announced in May 1987, the CEGB's chairman Lord Marshall was busily centralising the utility's operations.

He wanted to replace the "regional loyalties" in the CEGB with a single corporate ethos. He wanted to re-model the CEGB on the lines of the world's most forceful nuclear utility, Electricite de France. The plan had not progressed far enough, however, to materially affect the utility's character, so it would have been fairly easy to split the CEGB up again, creating five regional generating companies.

However, the Government also wanted to expand or at least to maintain the nuclear generating industry. So while the CEGB could be split, one of the resulting units had to be big enough to sustain the risks inherent in nuclear power.

Central Electricity Generating Board sales

AREA BOARDS	TOTAL CHARGE (£m) 1988	1987
London	692	683
South Eastern	612	601
Southern	893	876
South Western	430	425
Eastern	998	976
East Midlands	777	759
Midlands	790	777
South Wales	367	365
Merseyside/North Wales	566	552
Yorkshire	776	768
North Eastern	495	481
North Western	741	729
Total area boards	8,137	7,991
To Railways	83	82
Other direct consumers	28	16
Interchange outside England/Wales	-	5
Total sales	8,248	8,094

Source: Central Electricity Generating Board

Therefore, the 70:30 split of power stations between "*National Power*" and "PowerGen" became more or less inevitable.

However, these two companies bear no relation to the transmission districts, so the regional loyalties which could have been used to forge some sort of corporate identity for the privatised generators have been disregarded.

Privatisation of the electricity supply industry is the most radical such exercise the Government has undertaken. *The political will is strong, the industry's prospects are good, but are its staff capable of becoming electric entrepreneurs?*

The CEGB fought hard to avoid dissolution, but lost. The distribution companies — the 12 Area Boards — proved a ready source of alternative advice for Mr Parkinson, particularly as they had many old scores to settle with the CEGB.

The White Paper of February 1988, though a sketchy document in most respects, ended the arguments about the CEGB's dissolution, and began in earnest the process of preparing for privatisation. The CEGB would be split: its two successors — minus the national grid, which would pass to a new company owned by the Area Boards — would gear themselves up to compete with each other.

If they showed signs of collusion, the Director General of Electricity Regulation would be on hand to force them apart. The competition between the two CEGB offshoots, and new entrants to the generating market, would increase efficiency and thus force down prices.

At the time of the White Paper, the political pendulum had swung all the way towards the Area Boards; since then, it has swung back towards the CEGB.

Under the White Paper proposals, the generators would have been left to face the full rigours of competition while the Area Boards were given local monopolies and were allowed to pass on costs. This, however, had the obvious drawback of making the generators practically unsellable.

To potential investors in one of the most capital intensive of all industries, "competition" is not a word to be used in polite company, especially if faced with a potential monopsony purchaser.

The solution lay in giving National Power and PowerGen the right to contract directly with major industrial customers, thus giving them some scope for exercising their entrepreneurial abilities and *offering scope for sales growth* without the monopsony power of the Boards.

The disadvantage here is that every electricity consumer (bar the railways) is an Area Board customer; what National Power and PowerGen gain, the Boards lose. This did not appeal to the Boards' chairmen, especially those with a high dependence on the industrial sector.

The Electricity Bill does not answer all the questions about the generators' freedom to poach custom from the distributors. The answers will come in the contracts and licences for the privatised system, which should emerge by the spring. Even these, however, will not go far towards answering the most basic question of all: to what extent is the electricity industry capable of fulfilling the government's ambitions?

This is one of the basic differences between British Gas and the electricity industry. BGC, even in the public sector, faced real competition.

Electricity's market, in contrast, grew virtually of its own volition, as new electrical processes made their way into factories and homes throughout the post-Second World War period.

The electricity industry never needed to encourage anyone to buy fridges or washing machines or, for that matter, electric lighting.

The advantages of such technologies were self-evident to the consumer, and as ownership spread, electricity demand grew, unprompted by the suppliers. The ESI's recent conversion to positive marketing, via the "Energy for Life" campaign, is a response to the stagnation of demand since 1979.

Gas, in many of its common uses, can be substituted by other fuels. The gas-fired television set, fridge or washing machine do not exist, and never will.

This is why electricity, unlike gas, oil or coal, has traditionally been regarded as a service, not a commodity.

The fact that it cannot be stored — except by moving water up mountains — and has only one means of transport further emphasises its difference from most other commodities.

The "service versus commodity" argument is to some extent an abstract one. Much more tangible, and much more intractable, is the actual nature of the industry and the outlook of its personnel.

Talk of "returning" electricity to the private sector is difficult to take seriously. Even in the pre-nationalisation era, electricity supply was, as much as anything, a municipal undertaking with limited private sector involvement. And the pre-Second World War ESI bore little resemblance to the huge industry which has developed since 1945.

The public sector is all the industry has ever known, and as a result its staff tend to think of themselves as public servants.

Whatever accusations of arrogance and technological conservatism may be levelled — quite justly — at the CEGB, its staff act according to their perception of the national interest, rather than any narrow, sectional view.

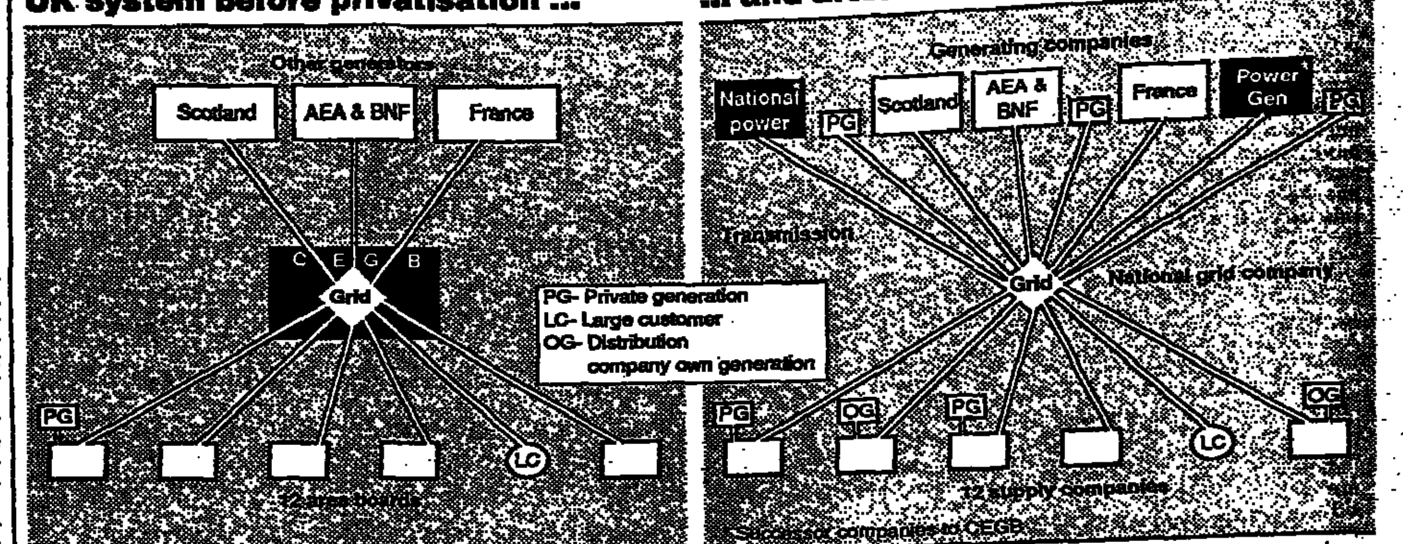
But attitudes change, though the problems which arise out of privatisation of the ESI are not just to do with attitudes. The privatised system will be founded on commercial contracts to an extent unknown elsewhere in the world.

Commercial negotiating skills will be very much at a premium, particularly in fuel purchasing. While the CEGB and Area Board personnel embody a wealth of technical skills, only a very limited number of people in any of these organisations spend their time in activities which could be accurately called "commercial".

To take but one example, the CEGB is not blessed with legions of contract lawyers. Where will it find them in sufficient numbers, at a price it can afford to pay?

Privatisation of the ESI is the most radical and far-reaching, as well as the largest, such exercise the Government has undertaken. The political will is strong, the industry's prospects are good, but are the ESI's personnel capable of becoming electric entrepreneurs?

UK system before privatisation ... ... and after



POLICY ISSUES

The balance of power after privatisation

WHEN MR Cecil Parkinson, UK Energy Secretary, assured Mrs Margaret Thatcher, UK Prime Minister, that electricity privatisation would not result in power cuts because the same experienced engineers would be controlling the system in much the same way, she replied: "Cecil, if nothing is going to change, why are we doing it?"

It was a joke, presumably, *but Mrs Thatcher's remark cut* to the central difficulty of the largest and much the most complex of her Government's privatisation projects.

The dilemma was implicit in the White Paper which announced the plans for the electricity sale in February 1988; it was at the centre of the tough bargaining last year during the drafting of the Electricity Bill, and it is by no means resolved.

Mr Parkinson wanted to force the industry to accept the discipline of competitive markets in the generation and wholesaling of electricity.

But the Government was far from willing to accept all the implications of a free market, especially those that might threaten the security of the system or some of the Government's strategic imperatives.

Mr Cecil Parkinson wanted to force the industry to accept the discipline of competitive markets

Fairly strong regulation was inevitable in an industry with such strong monopoly characteristics, whatever the structure of its ownership. But in framing the rules, the Government has gone a good deal further than was strictly necessary to protect captive customers from monopoly abuses.

The most obvious example is the Government's insistence that its nuclear programme should be continued even though ministers accept that privately-owned electricity companies acting in their shareholders' interests would probably abandon present plans.

Even if nuclear energy could be shown to be a cheaper alternative than a new coal or gas-fired plant (which is now doubtful), privately-owned electricity companies would be unlikely to accept the high financial and political risks associated with nuclear power.

The Government has justified its decision to keep the nuclear power sector at around 20 per cent of total capacity on strategic grounds, as a hedge against future increases in fossil fuel prices, and, less vocally, as a reserve weapon in case of a miners' strike. However, the decision has limited the scope of competition in two ways.

The Government has justified its decision to keep nuclear power at around 20 per cent of total capacity on strategic grounds, as a hedge against increases in fossil fuel prices, and, less vocally, as a weapon in case of a miners' strike

First, it restricted the number of generating companies to only two instead of perhaps four or five. This was necessary because one company had to be big enough to absorb the risks of a nuclear programme.

Second, the nuclear sector, which had to be specially protected by way of a nuclear levy on consumers, will pre-empt a large part of the potential market for "base load" power, that is from plants with low enough running costs to operate even when demand is slack.

The pre-emption of the market is especially significant in relation to another of the Government's directives, that all power plants above 100MW shall submit to central dispatch by the National Grid controllers. This means that all except the smallest plants will have to enter a period of continuous competition to be allowed to run. In periods of slacker demand, only those with the lowest running costs would be allowed to switch into the system.

Since nuclear plants are expensive to build but very cheap to run, they will always be used in preference to other plants. In summer or at night times, therefore, the competition between remaining plants to meet a small amount of demand will be intense. But independent generators, relying heavily on bank loans, may find it hard to finance new projects unless they can be assured of steady demand.

Although the provisions for a nuclear quota and central dispatch appear conservative, the Government's plans for opening up the industrial market are extremely radical. Industrial companies and private generators will be free to use the transmission wires at a "fair price".

In theory, therefore, larger companies with a steady demand for power could contract for cheap sources of electricity, driving prices down close to fuel costs, whenever there was a surplus of supply.

The area supply companies could then lose revenues and be left with fixed assets and contracts for generating capacity which would have to be charged to a smaller base of customers.

The extent to which medium-sized companies will walk away from their area supply companies remains unclear, however. Much will depend on the details of the transmission and distribution tariffs, and even more on the details of the contracts between the new area supply companies and the two generators. These contracts will be written initially by the Government as the owner of both parties.

The balance in these contracts between the fixed charges for use of a generating plant and the energy charge for operating it will effectively allocate risk between generators and supply companies.

If the capacity charge is high, the supply companies will effectively own the plant in the sense of having to pay their capital cost whether they need to be run or not. In that case generating companies would be reduced to mere operators, at least for the period of the contract.

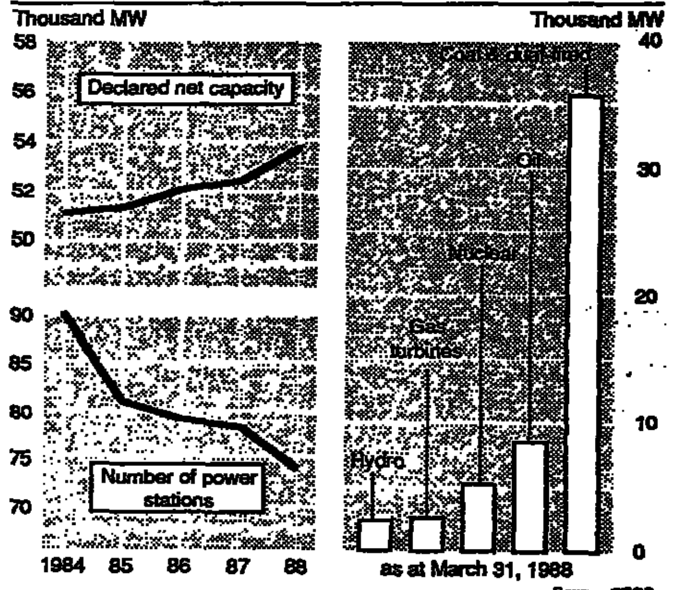
The authorities have gone further than was necessary to protect customers from monopoly abuses

In times of surplus capacity, the supply company would have to re-sell power it did not need at any price above that specified in its contract for running the power station. On the other hand, if the capacity charge were very low and the energy charge correspondingly higher, the generating company would take more of the risk, since it would be losing money whenever the plant were not called upon to run.

The generator would then have an incentive to offer cheap power at any price that were above its actual running costs, perhaps to industrial *customers of the supply company* to which it was initially contracted to sell power. It is impossible to guess how such a complex market will work out until the Government and the industry agree the general shape of the contracts; and, for understandable reasons, they are *finding this very difficult* to do.

Max Wilkinson

UK power plant capacity



Source: CEGB

EQUIPMENT SUPPLIERS

Market reshaped by tactical alliances

THE ANNOUNCEMENT in December last year that GEC of the UK is putting its heavy engineering businesses into a joint company with Alsthom of France was another huge piece in the amazing spate of restructuring overtaking the world's power equipment industry.

The smaller deal between General Electric of the US and GEC in switchgear and gas turbines announced *this* month confirmed the same pattern. From an industrial sector characterised by fragmentation in which scores of companies compete from their own national redoubts, power engineering is turning into a classic case of cross-border amalgamations.

In power equipment engineering the big are tending to get very big indeed in a trend started by the merger of Asea of Sweden with Swiss company Brown Boveri in 1987. Small suppliers left out of this trend could soon find themselves in a very chill wind.

The success of many of these new groupings, though, will still have to be tested in the extremely competitive environment of trying to win orders for power station equipment. Size does not always spell success and cross-border tie-ups sometimes throw up more problems than the participants expect.

Beyond that, the positions in all this of two big equipment suppliers, GE and West Germany's Siemens remains unclear.

GE has been looking for further partnerships. Siemens also has no major partner, except in nuclear engineering, though it is discussing joint ventures in transformers and switchgear with fellow German company AEG.

Siemens and GE had discussions last year but nothing *then appeared to have come* from the talks. Igniting what is turning out to be one of the most fundamental shake-ups in any industrial sector was the merger of Asea with Brown Boveri, creating Europe's largest heavy engineering company.

Since *then*, ABB, as *the* new group is called, has taken control of the industrial assets of Franco Tosi, the Italian steam turbine and boiler-maker. It is also effectively absorbing Ansaldo of Italy and has purchased other power equipment suppliers in southern Europe.

ABB's West German subsidiary has pooled its nuclear reactor technology with Kraftwerk Union, Siemens' power station equip*ment division,* and has also bought a steam turbine manufacturing plant in Germany from AEG.

The Swedish-Swiss company has also formed two large power equipment joint ventures in North America with Westinghouse.

Power engineering companies were already looking around anxiously at a business environment dominated by a paucity of orders with up to 70 *per cent worldwide manufac*turing overcapacity and escalating research and development costs.

In the power tools sector the big are growing ever bigger

The likely move towards smaller power stations operated on gas turbines and the need for those companies badly placed with this technology to link-up with new partners have added to the pressures.

So the formation of ABB sent the rest of the industry in a spin with everyone attempting to find former competitors to link up with in deals which would help spread geographic coverage, provide cost savings through rationalisation and broaden product ranges.

The deal between Compagnie Générale d'Electricité(CGE), of which Alsthom is a wholly-owned subsidiary, and GEC represents another large piece in the new European power engineering jigsaw.

Though the new 50-50 joint venture, *still to be finally* agreed, includes a wide range of other activities, including industrial automation and rail equipment, it would also represent the largest power engineering company in the European Community with net assets of £800m.

This deal — *over which a* cloud hung earlier this month with a threatened hostile bid for GEC by a consortium of international companies — must result in considerable plant rationalisation. However, there are some product and market fits.

GEC has no boiler making capability but Alsthom has. Alsthom is not in low voltage switchgear whereas GEC is. GEC makes gas turbines up to 60MW whereas Alsthom goes from 60MW to 200MW. These latter units are suitable for small power stations for which GEC's product range is not strong.

GE is taking a minority stake in a new gas turbine business arm with GEC and Alsthom as well as putting some of its Continental switchgear interests in with GEC. GEC has formed a partnership with Westinghouse in nuclear power engineering which is *excluded* from the *Alsthom* arrangements.

These are not the only link-ups changing the face of the *industry. Framatome,* the French nuclear station builder, is negotiating a partnership with Babcock and Wilcox of the US. CGE has a stake in Framatome but Framatome is not part of the deal with GEC.

Japan's very strong power station equipment suppliers look as if they might be drawn into some arrangements with their European and US competitors. ABB and Framatome have held discussions with Mitsubishi.

Mr Percy Barnevik, ABB's chief executive, says he would prefer a Japanese partner in the Far East than outright competition in that region.

So far, the only European supplier that has set up direct manufacturing and marketing links with a Japanese supplier is Northern Engineering Industries *in the UK* — *for middle* power switchgear and gas turbines.

Nick Garnett

US regulatory groups are now more responsive to market forces, reports **Max Wilkinson**

A tough generation game

ONE OF the most important effects of allowing private capital into an electricity industry is that regulation is pushed out into the open.

In Britain, where the systems for controlling the huge state electricity monopoly have been shrouded and ambiguous, the Government has been slow to emphasise this benefit, even though the regulatory system it is establishing is potentially extremely tough.

UK ministers are generally more interested in the entrepreneurial drive which they hope will be unleashed by privatisation, and are far from sympathetic to the US style of regulation which is seen to be far too intrusive.

However, important changes are taking place in many of the US's state Public Utility Commissions (PUCs) as they try to make their regulatory regimes more responsive to economic forces and the new competitive pressures *in the generation* market.

In California, for example, where the regulatory commission has been one of the most interventionist in recent years, the pendulum seems now to be swinging back to a more market oriented approach, though it is still far from *laissez faire*.

Mr Mitchell Wilk, the PUC's recently elected president, says that the electricity tariffs approved within the territory are now all within about 10 per cent of the true cost of providing the service. This represents a major change from the old "political" rates intended to protect domestic customers from rising costs at the expense of larger industrial consumers. The correction back to a more economically rational pricing system has been possible, Mr Wilk says, because of the fall in generation costs which resulted from weaker oil and gas prices.

Even so, past regulatory decisions have left Californian electricity utilities with higher average costs than, with hindsight, they need have had.

In the 1970s, *for example*, the PUC was so anxious for the state to economise on oil consumption that it required the utilities to buy power from many small independent producers *at prices which are now* some 30 per cent above the utilities' average generation costs and almost three times the cost of the cheapest power available.

Larger companies have been threatening to leave the system altogether and build their own generating plant unless they are offered lower prices. In California, as elsewhere, such deals cannot take place without the agreement of commissioners, because of the historic anxiety that utilities would cross subsidise their business in the industrial sector from their captive domestic customers.

The commission's response, Mr Wilk says, has been to allow industrial prices to fall, *but only to a level which the* utility can demonstrate reflects the true economies of a bulk supply. The largest cut recently was agreed for Chevron, the international oil company, whose tariffs were cut by a third.

Such judgements are not *easy to make, and the detailed* costings and arguments that follow from them require more regulatory effort rather than less, even where the effect is towards more market-based pricing.

Mr Gordon Smith, vice president of Pacific Gas and Electric in charge of tariffs, says the quality of officials in the commission has improved in recent years, and that this has led to more sophisticated discussion of tariff structure.

Mr Wilk believes that market discipline will be most evident in the generation sector, where the commission has been developing more sophisticated systems to deal with the wide variety of contracts likely to be offered.

"We now have a system by which the utilities which need more power will go out for bids. If the best bid can beat what the utility would have paid to build the plant itself, that's an advantage to consumers."

In spite of this enthusiasm *for competition and the market*, Mr Wilk is cautious about the scope for de-regulation in the electricity business. It is not, he says, at all like telecommunications where technological change is rapidly opening up choices for customers.

"I don't think there will be less regulation," he says, "but there will be a shift from reviewing all past investments with hindsight to becoming an umpire in the new competitive sector. We will have to establish the rules of competition and make sure the process is working fairly."

Dr Barbara Barkovich, a former head of policy and planning at the commission, who is about to publish a book on its *increasing interventionism*, also believes the regulators are unlikely to let go of the reins, though they may hold them more lightly in some respects.

"Commissioners will continue to be involved in the policy arena, because they do not trust utilities to keep on cutting costs. They fear that they may opt for the easy life unless the regulators keep up the pressure."

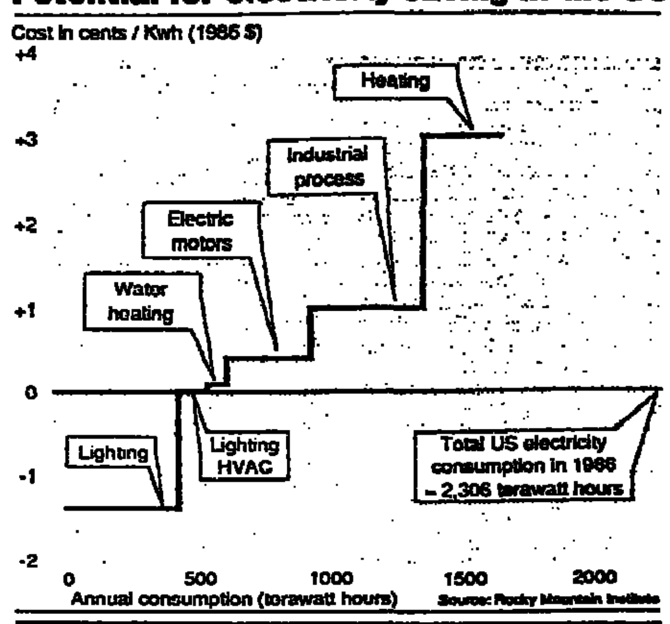
Dr Barkovich says the commission started to intervene *much more strongly* after 1975 when it pushed the Californian utilities into a major energy conservation drive in response to the energy crisis.

That programme ran into political controversy because direct subsidies for energy saving were taken up by the well-to-do rather than the poorest customers. The regulators have now scaled the programme back, concentrating benefits on the poorest consumers.

However, even in a period of weaker energy prices, few doubt that it is better to conserve energy whenever it is cheaper than the cost of generating it.

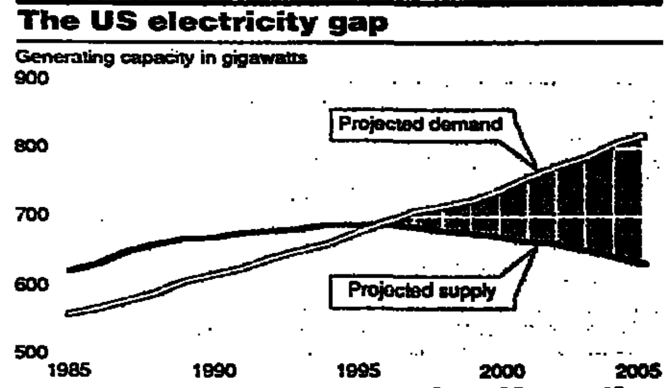
So the commission insists that any new generation projects *must be tested rigorously* against the costs and benefits of conservation proposals. And the commission believes that this is just the kind of trade-off which should be kept in the hands of the guardians of the public good at the PUC.

Potential for electricity saving in the US



Source: Rocky Mountain Institute

The US electricity gap



Source: US Department of Energy

TRANSMISSION LINES

Tightly guarded private sector monopoly

A YEAR AGO the centre of debate in the US electricity industry was about ways of introducing more competitive bidding by independent power producers. Now it has moved back to the complex and much disputed question of opening up the use of the wires to outsiders.

The reason is that it is not much use trying to be an independent generator if you cannot get your product to market. At present almost all the overhead power lines are owned by electricity utilities, usually in private ownership. Everyone agrees that this part of the business will remain a monopoly.

This would not matter as long as competition was confined to generators willing to site their plant within a utility's own area, as has happened in recent competitive tendering to supply power to Boston Edison and Virginia Power. Then the utility will simply use its own lines to transport the power as part of the deal.

But what happens, if a power supplier wants to locate the plant in some other utility's territory? It will then have to transmit the power across the lines owned by one or more third parties. This is called "wheeling", and it raises issues which many consider will prove a major barrier to the development of anything like a free market in electricity.

The complexities were, indeed, so great that the Federal Energy Regulatory Commission (FERC) – which supervises transactions in wholesale power – pushed the issue aside last year when it published three draft rules intended to smooth the way for competitive bidding. But it has now had to return to the transmission issue before making progress with the more radical of its bidding proposals.

One of the central problems, set out in a recent study by the *National Regulatory Research Institute* is that it is difficult to know what path electricity will actually take in a network.

It may be intended to send power from utility A to utility B across the intervening wires of C; but the power may actually flow in a wide loop across lines owned by utilities which have nothing to do with the transaction. Then, the cost of transmitting power varies enormously, depending on the direction of flow and the time of day. At night time the cost may be almost zero, whereas at peak times on a congested line, the cost may be very high.

At present most overhead power lines are controlled by privately-owned electricity utilities

In most parts of the US, transmission prices take little *account of true economic costs*, being based on a formula related to the historic cost of erecting the lines. This did not matter when most transactions were between co-operating utilities wanting to improve the reliability of supplies.

But in a competitive environment accurate pricing will be much more important, especially if industrial lobbies succeed in getting the networks opened up for private transactions by individual companies.

This is a prospect which horrifies many utilities because of the possibility that they could lose their most valuable customers and so be left with the cost of excess capacity. It is an argument which is being strongly debated in the UK where the Government has decided that the transmission grid should be open to all.

Mr Richard Clarke, chief executive of the Pacific Gas and Electric company, says: "We are increasingly evolving a hybrid system with a regulated core market of customers *who do not have an economic* choice and an industrial market of companies which can choose suppliers."

He sees an "irreconcilable conflict" between the needs of these two groups, because if big companies pick up the cheapest sources of energy, smaller customers will be left with a higher burden of fixed costs as well as more expensive power.

One answer, as Ms Martha Hesse, chairman of the FERC has said, is to find a way to set prices for use of the system which truly reflect the costs of those already owning and using it. Everybody acknowledges this will be a difficult task in the US. In Britain some solution will have to be found this year to prepare the industry for privatisation.

A partial answer, which the FERC is said to be examining, has been suggested by PG&E on the basis of a scheme which has already been approved for use in California.

For power which is wheeled for reasons of reliability – to prevent power shortages – the utility sets charges to cover the basic cost of the equipment used. But for services beyond that – mainly power wheeled to increase efficiency or profit – it may charge anything from zero to a half share of the savings resulting from transmitting power over a power line compared with using a more expensive local generating plant.

Complicated as it is, this system deals only with transactions between utilities, leaving the door barred to larger companies unless they negotiate first with their local supplier. If it decides to do so, the US will have to tread down this path with caution.

As Mr Don Vial, former chairman of the Californian Public Regulatory Commission says: "If you go in for retail wheeling without securing the economies of scale of the old integrated system, then you are buying a pig in a poke."

Profile: Pacific Gas and Electric

West Coast blues

RICHARD Clarke, chief executive of Pacific Gas and Electric, the US's largest utility, believes the company may never build another large power station in its extensive territory.

The San Francisco-based utility, like many of the US's privately owned electricity suppliers is having to adjust to a new world of increasing competition in the power generation sector which the state's regulatory commission insists must be tested against any of the utilities' own plans for building plant.

Many believe that the final passing of the old system was marked by an agreement which PG&E signed with the the state regulators last December on the recovery of costs for Diabolo Canyon nuclear plant which it started to build with high hopes more than 20 years ago.

"That plant was started in 1965 and completed in 1985, and we have only now got a decision on how we are going to be paid for it," Mr Clarke said, with a look more of sorrow than anger.

This sad history, which has been repeated with variations many hundreds of times across the length and breadth of America, provides the background to a series of major changes which now appear to

Continued on Page 6

Harmonising EC trade in electricity is likely to prove highly contentious, writes Andrew Holmes

Free market still a distant reality

THE EUROPEAN Community's drive to unify the internal market by 1992 includes provisions for free trade in electricity between member countries.

At first glance, this looks a modest enough proposal, given the large volumes of electricity which move across European borders each year, and the fact that such trade has been going on for many years. In practice, however, the free electricity market is likely to prove as contentious, and as difficult to establish, as anything the EC has yet attempted.

At present, cross-border power trading is carried on between electricity utilities. The EC's proposals would allow consumers to buy electricity direct from whichever country offered the cheapest supplies.

The problem is that electricity can only be transported by one means: transmission and distribution lines. In every case these belong to the local utility. To build entirely new, independent transmission facilities from, say, France to West Germany, would be so expensive as to nullify the economic advantage of buying from France in the first place.

Therefore, in conceding common carriage of electricity, local suppliers would in effect be helping a foreign supplier to take their customers away. Not surprisingly, this idea finds little favour with the local utility.

The impetus behind the EC's proposals is a change in the nature of cross-border interchanges which have taken place in the late 1980s. In the preceding period, electricity trade was mainly a load management device, taking advantage of the difference in time zones – and therefore in electricity load patterns – to use power production to its maximum effect.

COMPARATIVE GENERATION COSTS*

	Nuclear p/kWh	Coal p/kWh
West Germany	2.86	-
Belgium	2.11	2.97
France	1.86	2.62
Japan	3.05	3.66
UK	2.61	2.69
Switzerland	2.95	-

*£ at 1987 prices
Source: UNIPEDE

CAPITAL COST OF POWER PLANT (Basic cost per KW*)

	Nuclear	Coal
West Germany	1,257	623
Belgium	902	728
France	731	686
Japan	1,243	1,106
UK	1,254	782
Switzerland	1,290	-

*£ at 1987 prices
Source: UNIPEDE

The key to the system was hydropower. Countries like Switzerland, Austria and Norway produced more electricity than they could conceivably use. This electricity was transported to neighbouring countries, less dependent on hydro, allowing them to switch off more expensive power sources. In return, when hydro ran low, countries with mainly fossil-fuel production, such as West Germany and the Netherlands, would return the electricity. Year by year, most countries ended with a rough balance between exports and imports.

Then the French nuclear power programme got into swing. France over-ordered nuclear power stations on a scale which left it, by the mid-1980s, with a massive surplus of capacity.

The answer was to export the surplus. Fortunately for Electricite de France (EdF), its surplus coincided with a deficit in Italian electricity supply, brought on by the usual problems of siting new stations.

Here, to the subtle minds of the EC's energy directorate, DGI7, was a prime example of how European integration could bring benefits to all. Some EC members had too much power (France), some had too little (Italy), in some countries power was expensive (Germany), while in others it was cheap (France again, at least in theory). Put them all together, and everything would balance out. Nothing could be simpler.

In fact, there were one or two institutional complications, even before considering the feelings of the electricity utilities themselves. Europe is already integrated into two vast "power pools", which co-ordinate electricity trade: UCPTE, which includes the European mainland, as far east as Yugoslavia; and Nordel, which performs the same function in Scandinavia.

UCPTE includes non-EC countries like Switzerland and Austria, which by unhappy coincidence are the pivots of the system. Much of the electricity traded between France and Italy, for example, actually travels through Switzerland.

Before it reaches the citizens of Milan and Turin, French electricity takes a trip up and down the Swiss Alps, and for reasons of intractable geography, it always will.

The expansion of the EC membership has aggravated the problem by including Spain and Portugal, whose quarrels over electricity trade go back to the 1940s. Spanish utilities regard Portugal as their client as of right, and they will not readily hand her over to France, despite Portugal's enthusiasm for cheap French imports.

The most basic drawback, however, is that the European electricity market is far from being what the British like to call a "level playing field." Utilities in some member countries, like West Germany and Denmark, have been subject to heavy environmental costs, while at the same time being restricted in their choice of generating sources, largely by national and local political considerations.

The factors which separate Europe's electric utilities are, to a great extent, beyond their control. The West German utilities, for example, do not eschew cheap imported coal for the fun of it, nor did they ask to be subjected to the most stringent environmental requirements in Europe.

The main antagonists in the coming battle are France and West Germany. Major industrial concerns in Germany are lobbying to gain direct access to French imports.

Until recent months, the German utilities seemed to be fighting a rearguard action. There are signs, however, that the tide is turning in their favour. The public workers' strike in France has demonstrated EdF's vulnerability to industrial action, particularly by the Communist trades union, Confédération Générale du Travail.

Unlikely as it may sound, France was forced to import German electricity in November and December 1988, as well as making emergency coal purchases, to counteract the effects of strike action at its nuclear plants.

The industrial action in France points to what is perhaps the most basic of all questions which must be weighed against the prospects for a free market in electricity. Does EdF really want to get involved in direct contracts?

Much of the electricity which it exports is sold on a daily "spot-market" basis. If EdF, for whatever reason, does not have power to spare, buyers can be turned away with no hard feelings on either side.

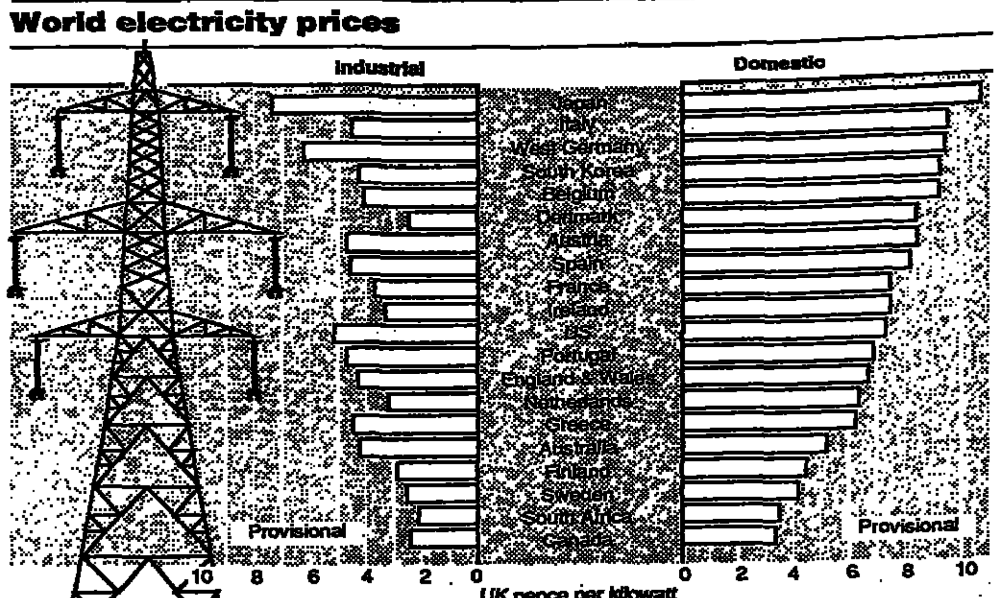
A system of long-term contracts with industrial customers – the biggest of which are small compared with the likes of Italy's ENEL or the UK's Central Electricity Generating Board – is a complicating factor which EdF might well wish to do without. EdF exists to provide electricity for France; anything else is secondary, and anything which threatens to get in the way of the primary purpose is to be avoided.

In the final analysis, EdF is an electric utility like any other, and wants to keep its place within the informal, co-operative framework which is the UCPTE. In other words, it is happiest dealing with other utilities, rather than selling power door-to-door around Europe.

Consultations between the EC Commission and the electric utilities are at an early stage. The Commission has a good deal of learning to do, if its initial proposals on the free electric market are anything to go by.

The most likely outcome appears to be that 1992 will see the beginning of an attempt to "harmonise" the EC electricity industry, preparatory to the opening of the market at some indeterminate date in the future.

World electricity prices



Price per kilowatt include local taxes and VAT, (industrial prices exclude VAT) from a representative utility in each country for a customer on standard domestic tariff using 3300 kw / year, (typical 2.5 mw, 40% load factor supply for industrial prices) as at July 1, 1988.
Source: The Electricity Council UK

FRANCE
Nuclear giant

ABOUT 90 per cent of France's electricity is provided by the state utility Electricite de France (EdF), the remainder coming from the state coal producer Charbonnages de France and from the Rhone hydro corporation. EdF is by far the largest electricity exporter in Europe, with some 10 per cent of its production being sold abroad annually.

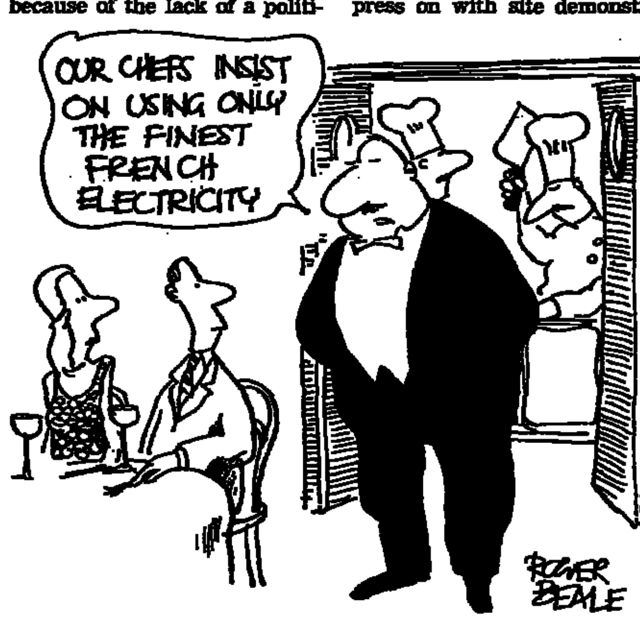
"Our problem," says an EdF executive, "is that the other European utilities are afraid of us." The comment, made only half in jest, does something to suggest the curious mixture of envy, horror and pity with which their colleagues abroad regard the executives of EdF. Envy at the French ability to press ahead with nuclear power; horror at the thought that this nuclear juggernaut will begin to roll across their borders; and pity because EdF is so conspicuously becoming a victim of its own success.

Between 1974 and 1982, France was ordering 6,000MW of nuclear power stations per year, more in every year than the UK has ordered in the past 20 years. Other countries had ambitious nuclear programmes which were subsequently scaled back. France pressed on, even when electricity demand began to falter. The result is that EdF has an overcapacity problem with few parallels in the history of the electricity industry.

Already, nuclear plus hydropower, which is even cheaper to operate and therefore cannot be displaced even by nuclear, accounts for all but 4 per cent of French electricity production in normal conditions. Between 1988 and 1993, counting only reactors already under construction, EdF will commission another 13,200MW of nuclear capacity, rather more than the *total* nuclear capacity of the UK. EdF is already closing down older reactors prematurely to make way for its newer, larger units. And in the process of building these units it has amassed a debt of more than $40bn.

EdF has gone forward where others feared to tread mainly because of the lack of a political brake on its ambitions. In France, local government has insufficient power to withstand the force (or the financial inducements) of the great utility, and with the backing of central government, EdF has been able to push through whatever projects it sees fit, up to and including the "commercial" fast breeder reactor Superphenix at Creys Malville.

French anti-nuclear groups, like their German equivalents, were faced with a stark choice: press on with site demonstrations, or draw back. The anti-nuclear movement divided and dispersed, leaving the stage clear for EdF.



While in opposition, the French Socialist Party was anti-nuclear and pledged to reverse the tide. But by the time Mr Francois Mitterrand came to power, France was too far down the nuclear road to consider turning back.

Privatisation, competition, deregulation and other buzzwords of contemporary energy policy are without meaning in the French context. The only question is how to make use of the vast power parks on which so much of the nation's time, expertise and money have been spent. The great strategic object of the French nuclear programme, freedom from imported oil, was achieved long ago.

The other side of the master plan, making France the world's leading reactor vendor, has been dissolved by the collapse of the market for nuclear reactors. What has been left behind is a vast surplus of the most expensive source of large-scale power generation money can buy.

While exports may take some of the edge off EdF's financial problems, they will never be anything but a partial solution. The answer lies in boosting electricity demand. To this end, EdF has recently signed what may prove to be a crucially important deal with the aluminium producer Pechiney, offering cut-price electricity for a plant which EdF itself will help finance and partly own.

Andrew Holmes

WEST GERMANY
Bleak picture

THE WEST German electricity industry is organised on a regional basis, with the Lander governments playing a central role. Where these local authorities do not actually own a majority share in the electric utilities, they usually have majority voting rights.

Shareholders also include local banks and industries, as well as employees, pension funds and, less typically, private individuals. There are some 1,000 electricity supply undertakings, though the system is dominated by nine large, vertically integrated utilities of which by far the biggest is Rheinisch Westfälische Elektrizitätswerk (RWE).

Such a description hardly begins to describe the complexity of the system of mutual ownership between the electricity, heavy electrical and coal industries which characterises the West German system. The important point, however, is that there is no clean division between the local authority, the electricity utility and the coal industry.

This goes some way towards explaining the tortuous relationship between coal and electricity, which is codified in two related arrangements:

■ the *Jahrhundertvertrag* or century contract, which obliges electric utilities to buy at least 45m tonnes of German-mined coal a year until 1995;

■ the *kohlepfennig*, a levy on electricity prices – now 7.25 per cent – to make up the difference in cost between domestic coal and imported supplies.

This system has been put under severe strain by the collapse of world fuel prices, making the *kohlepfennig* ruinously expensive, and by the divergence in nuclear development between utilities.

Some states – notably Bavaria – are highly dependent on nuclear; others, like North Rhine Westfalen, highly coal-dependent. Where the Social Democratic Party rules, nuclear power has been held back, while Christian Democrat and Free Democrat states have pressed ahead.

The other area of potential change is in the "demarcation and concession" contracts which map out the supply areas of the big utilities, effectively forbidding them by law to compete with each other. Industrial lobby groups have been pressing for years for the market to be liberalised. Demarcation and concession contracts will not be automatically renewed after 1994, and some liberalisation will take place, carefully monitored by the authorities.

The tardy pace of change in Germany is not explained simply by the inertia of local industry, as some critics claim. Times have been hard for the utilities in recent years; they have been forced to meet strict environmental standards, imposed after the "deforestation by acid rain" controversy of 1983-84.

Nuclear power has also been hit, first from environmental protests and political polarisation and latterly from the Transnuklear scandal of 1987, which cast doubt on the very integrity of the nuclear industry. All this has taken place against a background of stagnant electricity demand.

The privatisation of the German industry is unimaginable. Here, as in much of Europe, the industry retains its municipal character, and because of the balance between national and local government in West German democracy, the power of the Bonn government to impose change of any kind is limited.

Andrew Holmes

ITALY
Modest upturn

STRUCTURAL CHANGE is much in fashion among those who regulate the European electricity industries. As a consequence, there is a temptation to overestimate the importance of this aspect of the industry.

A comparison between France and Italy should serve as a useful corrective. Electricite de France (EdF) and Italy's ENEL are structurally very similar, both being national, state-owned, vertically integrated utilities. There the resemblance ends.

France and Italy started from very similar positions in the years before the 1974 increase in the price of oil. Both were highly dependent on imported oil for power generation.

Now France is the undisputed leader of the European nuclear industry while Italy's nuclear programme, never a very happy venture at the best of times, has been put out of its misery by a referendum.

Italy remains dependent on oil for about half of its electricity production while France uses heavy fuel oil in only small quantities. Italy's diversification has brought in natural gas (by accident rather than design), electricity imports and coal. But coal is burned in stations which were originally designed as oil/coal dual firing units. Attempts to construct new coal-firing stations have met with intractable opposition.

National energy plans have rather fallen out of favour in the 1980s, but Italian politicians remain faithful to them. Roughly every three years, politicians produce a comprehensive blueprint for overhauling the national electricity system. They require ENEL to build however many thousand megawatts of new coal and (until recently) nuclear capacity, and set out guidelines for dealing with local opposition through national procedures.

But when ENEL actually tries to build any such station, the political backing from Rome fades away, leaving ENEL to do what it can in making deals (though no financial incentives are allowed) with the local politicians.

Its success in doing so has, thus far, been rather limited. ENEL's recently announced plan for a 2,500MW offshore power station – the sea being the only refuge from politicians – is as good a measure as any of its siting problems.

On the face of it, the situation looks bleak. Yet ENEL, once a financial basket case, has managed to turn in modest profits in recent years, while the electricity blackouts endemic in the period up to 1980 are now little more than a memory.

Today the Italian electricity supply industry looks healthier and more stable than at any time in living memory.

Some 15 per cent of ENEL's electricity comes, at bargain basement rates, from the French nuclear parks. Coal has made inroads, if not the spectacular gains once hoped for.

One consequence of ENEL's position is that Italian householders are not encouraged to use electricity. State gas company SNAM advertises itself everywhere, attempting to find consumers to soak up the gas surplus which it bought for itself through contracts signed in the mid-1970s, and of which ENEL is a major beneficiary.

Whereas France's EdF encourages its customers to use electricity for every conceivable purpose, ENEL, not surprisingly, regards what it sells as something of a luxury. Time will tell which of the two is taking the wiser view.

Andrew Holmes

West Coast blues

Continued from Page 5

be overtaking the US electricity industry.

Back in 1968, when work was beginning on Diabolo Canyon, everyone in the industry presumed that the established system would be used for the recovery of costs to the benefit of all parties.

When the plant came on line, the utility would be allowed to increase its tariffs to recover the costs with a fair margin for profit. This rise, however, was expected to be more than offset by the low running costs which would provide customers with a source of cheap electricity for many decades ahead.

In the event, construction delays, and design changes required by nuclear regulators increased costs at a time when consumers were increasingly reluctant to pay for what were seen as the mistakes of utility managers.

After years of expensive argument, the final settlement proposed by the Californian regulatory commission represented an important break with the established method of automatically passing capital costs on to consumers. Instead, the utility will be allowed to charge a relatively high price for the nuclear electricity from this plant, but only if it is operating. No juice no cash.

Although the agreement is better than the utility once feared, the years of argument have taken their toll.

"When you are a manager faced with such long delays in getting investments reflected in your price structure, you become very sceptical about *investing* any more into new plants," Mr Clarke says.

Fortunately the problem is not urgent in the PG&E territory, because slower economic growth, the effects of a major conservation drive a decade ago and continuing excess generating capacity in the region means that for some time supply is likely to be comfortably ahead of demand.

Windmills standing rank upon rank on exposed Californian hillsides are the most visible examples of new sources of power in the state

However, the power shortages now beginning to develop on the East Coast of the US are a reminder that California will also have to start thinking about new sources of supply sooner or later.

So where will it come from ? The answer is small independent generators, of which the windmills standing rank upon rank on exposed Californian hillsides provide the most visible example.

A decade ago the Public Utilities Regulatory Policy Act (PURPA), passed by Congress during the Jimmy Carter presidency, established conditions for the development of independent power production, which Californian regulators were especially eager to exploit. The Act required utilities to buy power from a special class of independent power producers at a price which at least matched their cost of generating the same amount of electricity themselves (their "avoided cost").

The Californian regulators interpreted this liberally, encouraging the utilities to offer long-term contracts based on the assumption that oil prices would now be between $40 and $60 per barrel instead of between $15 and $18.

The terms were so favourable that PG&E now has contracts for the supply of some 9,000MW of "PURPA power", compared with its own existing capacity of 15,000MW. Only about 2,500MW of this independent capacity is operating at present, with another tranche under construction.

But the price has been high. Mr Clarke says he is paying an average of 6¼ cents per kwh for this power and up to 11 cents for wind power compared with the utility's own costs of 3½ to 4 cents per kwh.

The name of the game now is to set up a structure of competitive bidding for new independent supplies which drive prices down to a market rate. After the traumas of Diabolo Canyon, Mr Clarke says: "The idea that there is a group out there willing to bid to build plants and take the risk of constructing it, so that it is tuned to market demand has removed a tremendous burden from us."

Nevertheless, the core of PG&E's electricity business has traditionally been the building and running of power stations in its franchise area. Now it has teamed up with Bechtel, the engineering project management group, to join the bidding in other utilities' territory.

Mr Clarke believes that in the new competitive world of electricity generation, many utilities will gradually become distribution companies like those being set up in the UK, contracting for new power supplies from independent power suppliers.

He is confident that PG&E will be one of the survivors in the generation market, but the going is likely to be tough for some time.

Max Wilkinson